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BUSINESS ADMINISTRATION

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LASALLE EXTENSION UNIVERSITY

CREDITS AND COLLECTIONS

CREDITS

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1917

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PREFACE TO CREDITS

It is extraordinary, but true, that business is the only profession which men can enter without previously preparing themselves. A man cannot become a doctor, a lawyer, an architect, he cannot become even a stonemason or a hodcarrier without preparation, but he can always go into business no matter how inadequately prepared he may be in the science of business. This fact probably accounts for the great number of failures in business.

It is because there are so many failures in business that the credit man has become a prominent figure in commercial life. It is his duty to safeguard his firm against losses due to failures. Up to a comparatively short time ago, few credit men thought of themselves as sales-promoters. They were content to exercise a purely *destructive* function.

Within the last few years a remarkable change has been noted, and the credit man who is not *constructive* is now out of date. By a constructive credit man I mean one who is a sales-builder and a profit-maker.

A credit man may be constructive in many ways, but principally by helping those customers whose failure to prosper is due to lack of capital or lack of knowledge about business science. The first he can aid by judicious extension of credit, while the second can be helped by being taught modern business methods.

The credit man who has sufficient insight and nerve to put a worthy but struggling business on the road to prosperity, wins for his house a steadfast friend and profitable customer in later years.

While a discussion of this kind must, of necessity, deal with the critical and restrictive work of the credit man, it has, as its chief object, the exposition of constructive methods and policies. It is written with practical experience as a basis, but its ultimate ideal has been to state fundamental principles rather than to describe any particular "system" of credit management which would be inapplicable to the reader's own situation, however practicable it might be in any other organization.

The ability to do certain things, and the ability to demonstrate or teach the accomplishment to others, are rarely found in the same individual, especially if he be a business man and the instruction be in writing.

Added to this is the inability of the busy business man to find the time necessary to a proper presentation, in any considerable detail, of any important subject.

I would not have attempted, nor possibly have felt competent for, this work had I not the opportunity of collaborating with Mr. Stephen Gilman, who has done most of the work, and who is entitled to whatever of "credit" you may find herein.

Mr. Gilman is unusually well qualified to do this piece of work. He is a graduate of the University of Wisconsin, in which his father, Professor S. W. Gilman, is Dean of the Course in Commerce. He has, in addition to this thorough university training, the practical experience which has come to him as Manager of the Credit Department of the Tennessee Coal, Iron & Railroad Company.

EDWARD M. SKINNER

PREFACE TO COLLECTIONS

In preparing this treatise on Collections no effort has been made to tell the reader how to collect an account against Smith, Jones & Company, general merchants, Podunk; or against Mary Martin, stenographer, 1427 Walnut Street. Rather, an effort has been made to outline the entire collection problem as a whole and to state and suggest such points and applications in the analysis of this great problem as will enable the student of collection procedure to fit, apply, and amplify the principles developed to the solution of any individual case.

The examples given are not intended as forms to be used in cases more or less similar, but as illustrations of routine and of the development of increasing pressure.

It is taken for granted that the reader already knows, or will inform himself, of the existence of laws relating to notes, accounts, and other evidences of debt, to security, and in a general way to the processes and application of such laws. Being a business man, he should realize that the application of law is technical and that he should employ a lawyer whenever legal process must be considered. For these reasons, the chapter on Legal Process has been limited to a preparation for legal action when necessary and to warnings against the undesirable in lawyers and in the law and its application.

If the study of these pages develops facility in recognizing the real problems and correctly solving them, the author will consider himself amply repaid for the effort and inconvenience incident to their preparation.

R. S. WHITE.

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CREDITS

CHAPTER I

MERCANTILE CREDIT

There is no factor in modern business that cuts a larger figure than does mercantile credit. The prosperity of the world is based upon it. Do away with it and you do away with the very foundation of our social and economic fabric. And yet, when we try to explain the meaning of the word itself, we find the task a difficult one. No two writers on this subject agree on the terms they employ in defining it.

But we can, as a matter of fact, gain a more adequate conception of what credit really is from example than from definition. Let us, then, select and discuss two simple credit transactions. These transactions will typify the two great classes of actual transactions which exist in modern business life. By analyzing them in this simple form we can arrive at the laws which govern mercantile credit. This is the method that the scientist uses when he studies in his laboratory. He reproduces on a small scale and in a simple form the things that he finds in nature, and, inasmuch as his experiments are under his direct control, he can vary conditions to suit himself. Let us consider in this same way the two following situations:

Example I.—Smith has for sale 30 tons of coal at \$3 per ton. Brown knows that if he had that much coal he could retail it and make a profit of 50 cents per ton. He has no money to buy the

coal from Smith, but finds that Smith is willing to sell it to him in return for his promise to pay at the end of 30 days. He therefore buys the coal on this arrangement and retails it to thirty of his customers, one ton to each customer at \$3.50 per ton. He then collects in full from each of these customers, the total collections amounting to \$105. Then he pays Smith \$3 for each ton of coal purchased, or \$90 altogether, which leaves him \$15 profit.

CHARACTER

Smith has extended *credit* to Brown for 30 tons of coal.

Let us analyze this transaction in detail. Why should Smith let Brown have 30 tons of coal when Brown had no money with which to pay for it? Obviously it must be because he feels sure that Brown *will* pay for it in 30 days, as he has promised. This means that he can rely on Brown's promise. Here we have the first of the three important elements in any extension of credit. This first element is known as "character." Brown's character is so good that Smith knows that he will keep any promise he makes, *if possible*.

ABILITY

The two words "if possible" lead us to consider the second vital element in the credit transaction, namely, "ability." Smith evidently knows Brown, and knows his ability is of a high order. He knows that Brown is a capable man and a good business man and that if he says he can sell the coal at a profit he probably can. Brown might have an excellent character, but, if his ability was poor, it is not likely that Smith would let him have the coal merely upon his promise to pay for it at the end of 30 days. The promise might be honestly made, and yet, lacking ability, Brown might find it impossible to pay as he had agreed to.

Character and ability, then, are the two all-important elements in this transaction.

In the first transaction the material which was sold was coal. The same principles which apply to this sale of coal will also apply to the sale of any merchandise. We can now follow Brown's fortunes farther and study a different kind of transaction.

Example II.—We saw that in the first illustration Brown profited to the extent of \$15 on one transaction. Let us assume that when he has repeated his operation ten times and has built up a business, the elements of which consist of purchases from Smith based merely on promises to pay, and sales to customers at an advanced price, he finds that he can conduct this business more efficiently if he has a horse and wagon with which to deliver the fuel. Green has a horse and wagon for sale for \$300 and transfers it to Brown in return for his promise to pay in 30 days. Brown has only \$150, his profits on the ten previous transactions, and he does not wish, as in the first example, to sell the property in order to get funds with which to pay for it. What can he do?

He can pay Green \$150, which he has on hand, and ask him to wait for the balance until another \$150 in profits has been earned, or he can go to a money lender, borrow \$150, giving the money lender, as security, a mortgage on the horse and wagon, to be paid off in small instalments, and, adding \$150 of his own money, pay \$300 to Green, thus clearing his debt. This leaves Brown with a horse and wagon, which are mortgaged for \$150 but which are worth \$300, and no cash at all.

In this second example, Green extended *credit* to Brown. He sold him a horse and wagon entirely on Brown's promise to pay for it in 30 days. It is clear that the element of character that we noted in the first example is also present here. Green had confidence that Brown would keep his promise to pay; also Green must have had confidence in Brown's business ability. He felt that

Brown would not buy a horse and wagon unless it was a wise and profitable thing to do. Thus we see that the same two essential elements, namely, character and ability, are present in the two situations.

There is, however, a fundamental difference. In the first example, Brown bought the coal to sell it at a profit. There was no permanent investment involved. To all intents and purposes, Brown acted only as a connecting link between Smith and the thirty customers. If we assume that Brown was honest and able, there was no need for him to have capital. In the second illustration, the horse and wagon were not bought for purposes of resale, but for an investment. Green is not sure of getting his money back as *promptly* as Smith was. The time factor becomes an important one. Green, however, is better secured than Smith was, as the property he sold Brown was not consumed or resold, but was kept on hand and could under certain conditions, by recourse to law, be seized by Green in payment of the debt. You will note that the question of capital as one of the factors in credit has not been considered in this example.

The two situations that have been explained are simple types of transactions that are taking place in countless numbers every day. When the grocer sells you provisions, when the electric light company sells you current, when the oil man sells you kerosene, the same situation is involved as in Smith's sale to Brown. When you buy furniture, an automobile, or a house and lot, the transaction is in no way different from that between Brown and Green, except that both of the cases used for illustration were simple and "ideal" ones, stripped of all complicating and nonessential incidents. Furthermore, we paid no heed to credit factors which were of the "external" variety.

CAPITAL

The thoughtful student will see that even if a man has good character and is possessed of excellent ability, there is still some element of risk in selling him goods merely on his promise to pay. Suppose, for instance, that before Brown is able to sell the coal which he has received from Smith, it should become ignited and be entirely burned up. Brown would have no money with which to reimburse Smith for the coal. Or suppose, in the second illustration, that the horse which Brown purchased from Green should become ill and die. Brown would be unable to pay Green what he owed him. Suppose, however, that Brown had capital amounting to \$1,000. His capital might be so invested that he could not utilize even a portion of it to pay Smith for the coal before it was delivered. Smith, however, would be far more willing to trust Brown for the coal because of the \$1,000 which he knew that Brown possessed. The coal could burn up, and still Brown would be able to pay Smith. The horse could die, and still Brown would be able to pay Green.

Capital, then, acts as a form of insurance against the unexpected. If it were possible for Brown to insure the coal that he purchased from Smith against fire and every other conceivable form of loss with some reliable insurance company, the effect would be the same as if he had capital.

THE NATURE OF CREDIT

We can now summarize our results as follows: When a man or a corporation secures at the present time goods, services, or money for which an equivalent is to be rendered at some future time, credit is present. It has been defined as "the permission to use another's capital"

or as "the measure of one person's reliance on another person's promise to pay." It can hardly be a measure of anything except in the way that actual money may be defined as a measure. The function which money usually exercises is exercised by credit.

From another point of view, credit is just the opposite of cash. The customer who pays cash utilizes profits already accrued, while he who uses credit anticipates the profits of the future.

Whenever credit is extended, the giver of credit either consciously or unconsciously recognizes the essential elements which we have explained, namely, character and ability, and also certain *external* factors which may be, at least partially, guarded against by capital. It is customary for writers on this subject to think of the three elements together, inferring that they are of the same nature. Character and ability are of the same nature, both being personal qualities, but, as we have stated, capital is not a personal thing; in reality, it merely acts as insurance against the unexpected.

A man is "worth" exactly the cash value of his assets: his "credit" is measured by his power to borrow money and his ability to buy on time. It is readily seen that the figures standing for a man's credit and for his net solvency seldom agree. For, while the first reckons the range of trust accorded him as a business man, the other represents an entirely impersonal purchasing power, which can be stated in exact units. In other words, cash is independent of personality, whereas credit never is. The possession of money would qualify an idiot for purchasing at the market price, but he could lay no claim to credit, and his power to buy would stop with the exhaustion of his means for paying.

It is true, however, that in credit-granting one man's

cash capital may not be so good as another's. If two men, each with \$1,000, should solicit credit from a good credit man, the first question each would be asked is: "Where did you get this capital?" The applicant who had earned his \$1,000 by his own efforts would be entitled to, and would probably receive, from two to four times more credit than would the man who had acquired his \$1,000 by inheritance or gift.

Why?

Just because the first man has *demonstrated his ability* in a tangible way. The other man has simply been fortunate, and may not know how to care for his money or how to make it grow.

KIND OF CREDIT

Mercantile credit, represented by book accounts, bills of exchange, promissory notes, and other evidences of indebtedness, affects continuously a large number of people, and it has come about that any mention of credit without qualification refers to the transfer of commodities, more particularly the selling by large wholesale houses to retail dealers. When referring to other kinds of credit, it has become customary to mention the particular kind, such as "personal" credit, which rests principally upon the good faith of the creditor; "banking" credit, in which money is the merchandise instead of goods; "public" credit, which refers to the nation, the state, or the municipality; and "investment" credit, in which money is loaned on the basis of securities in one form or another.

The volume of business daily transacted on a credit basis is immense, so immense that it impresses the least careful observer. The activities of the largest houses consist in the selling of goods on time. It is probably well

within the truth to assert that 95 per cent of the sales made to retailers are credit sales, and, since this country's volume of trade reaches into thousands of millions annually, it is to be seen what a tremendous power is exercised by credit. Its two great economic functions are to promote the production of wealth and to facilitate the exchange of capital. In thinking of the enormous volumes of credit transactions, it is well to remember that every one of them is, in its elements, similar to one of the two illustrations with which we opened this chapter.

An illustration of the prime importance of the two credit factors occurred in Chicago some years ago. The vice-president of one of the large banks announced one day that he proposed to start a national bank of his own—capital, \$1,000,000. On that bare announcement the capital stock was oversubscribed *four times*. The man had no money to speak of, but he had a far-reaching reputation for integrity and ability, and by that alone he attracted four million dollars.

TEST QUESTIONS

1. What is mercantile credit?
2. What other kinds of credit are there?
3. What are the two fundamental credit situations?
4. What are the three basic credit factors?
5. Are the three credit factors alike in their nature? Explain.

CHAPTER II

THE CREDIT MAN

It is clear that while one transaction like that between Smith and Brown, or even ten such simple transactions, could be handled in one day by one man, where they run into the hundreds every day and into the thousands each year, special machinery is needed to simplify the extension of credit, and special training is needed for the man who is in charge of that department of the business which is known as the "credit department."

In every wholesale house and in every manufacturing company there is one man who occupies a position of authority which is unique. Not even his superiors can afford to reverse his decisions. From them there is no appeal. He has the authority to say who may buy on time and who must purchase for cash. He is known as the "credit man." He sits in judgment on the financial responsibility of customers. He may be young, but his experience has been long and varied, since this is necessary for the adequate discharge of his duties. He has a range of special information and a command of pertinent facts such as no other man in the organization of his company can bring to bear in deciding a customer's trustworthiness.

This man must be familiar with the details of all lines of business in which his debtors are engaged, in order that he may determine from the facts he has before him, whether or not an applicant's capital, sales, expenses,

and past experience are such as to give promise of ultimate success.

He must know at least the elements of commercial law, the statutes of exemption, the financial responsibility of corporation offices, and the members of a partnership. He should know whether or not a woman is a free trader. He cannot be expected to have a detailed knowledge of all these facts, but there are some fundamentals that he must know in order that he may extend credit understandingly. It takes keen insight to fix at once upon the vital and decisive factors in the great mass of credit material, and sharp analytical powers to sift the kernels from the chaff and to correlate the factors which are to be considered in connection with one another.

The honesty, good habits, economy, and industry of a debtor, the commercial condition of the locality in which he does business, his standing in the community in which he lives, are just as much a part of his capital as the cash he has invested. They are greater elements in his success. The credit man, both from his knowledge of what is necessary for success and from his experience in dealing with hundreds of merchants, should be able so to impress the applicant for credit that he will start his business on sound lines and continue it on such systematic, well-defined policy as has been found successful in other similar enterprises.

The credit man is the doctor of business. If given an opportunity, he will diagnose the case and recommend remedies. He will, if consulted in time, advise common-sense treatment and will soon restore healthful conditions and ultimate prosperity. Business, like the body, is strong and healthy where fundamental conditions are right and where proper lines are followed. The ills of a business are much more easily corrected than the ills of the body and mind.

Then it follows that under modern business conditions debtors and creditors are in a sense partners in enterprise. Credit is no longer given as a favor to the debtor, but with a view to mutual profit. Likewise, the old conception of a debt as a mere legal operation is inconsistent with the theory of modern productive credit. The firm that extends credit supplies capital to the debtor and assumes to a certain degree proprietary responsibility for the success of the latter. Obviously, the credit man, as an investor of capital, should have a broad knowledge of credit affairs.

KNOWLEDGE OF HUMAN NATURE

As good character is fundamental in all credit dealings, the credit man must be a student of character. He must have wide sympathy and be absolutely unprejudiced. The credit man must be able to determine whether an applicant for credit, if he is just starting in business, has the requisite qualifications for success, and if he decides affirmatively, he must be willing to back his judgment by judicious extension of credit, which is nothing more nor less than added capital to the debtor's business.

No credit man can hope to be successful today who is not tactful. Tact is sympathy with other people, the ability to put oneself in the position of another. The man of tact must have a good memory. He must remember people's weaknesses and their sensitive spots, in order to avoid them. He must remember their interests and their hobbies, in order to fraternize with them. He must remember their strength and their pride, in order to appeal to their vanity. The credit man should be dignified, but pleasant and agreeable, in order that he may always place his customers perfectly at ease.

The credit man has often to ask and do many things which are unpleasant and embarrassing, both for himself

and for the debtor. If he can do these things in such a way as to keep the good will of his customer, even if he cannot sell him, he is a master of diplomacy. The greatest compliment a credit man can receive is to find that an applicant who has been declined credit, either buys for cash or says to him, "I will put myself in such shape that you will gladly extend me credit."

The credit man must have broad human sympathy. He must be able to enter understandingly into the hope and the ambitions of the applicant. He must never permit his judgment to be so prevailed upon that he allows a credit against his better judgment. This does not mean that a credit man's sympathy should be allowed to override a cool, analytical judgment. The extender of credit who lacks the human touch, however, makes a success neither for himself nor for his house.

HONESTY

Honesty and fair dealing are just as necessary to the credit man as to the merchant he desires to sell. The credit man should build for himself a reputation for honesty that will make him the confidant, the adviser, and the helper of his customers. Such a reputation will reflect favorably not only on his house but also on himself. It will bring to him without hesitation men in trouble and in need of advice. The credit man's opportunity for helpfulness is not surpassed by that of any other man in the business world, except, possibly, the banker's.

KNOWLEDGE OF ACCOUNTS AND CUSTOMERS

It is necessary for the credit man to keep in closest touch with the accounts receivable, particularly since he is often cashier and also head bookkeeper and general office manager.

Since credit is affected by every operation or incident between the customer and the house, the credit man comes in touch, or should come in touch, with every detail, no matter how insignificant it may seem, relating to the return of merchandise, claims, cancellation, requests for donations, etc. They all have a bearing on credit. He usually attends personally or through his assistants to all correspondence regarding or affecting the policy of the house except that concerned with the sale of goods, etc. In this way, being a sort of correspondent, he comes to personify the custom and policy of the house. To him are referred all matters pertaining not only to credit, but also to the hundreds of minor adjustments that daily come up for decision in every business and that have much to do with satisfying and holding the customer.

A GOOD CORRESPONDENT

The old-time credit man used to see customers at least twice a year. Now he rarely does. Credit has become more a matter of correspondence. Hence, the necessity of the credit man's being a good letter-writer. A really good correspondent will save his firm many times his salary in good, unquestionable credits or credits that are under careful investigation. He will, through his tactful letters, settle differences and adjust claims, satisfy customers as to the correctness of policy, and thus hold the customers of his house satisfied instead of driving them away. The more-than-ordinary credit man will accordingly become proficient in the art and science of business letter-writing.

The indispensable qualifications of a modern credit man are that he should have a broad and comprehensive knowledge of business as a whole and that he should be a

diligent student of human nature, accountancy, and correspondence.

TESTS OF A GOOD CREDIT MAN

The foregoing qualifications he must have, but the ultimate tests of a good credit man are his accomplishments, his results. These tests may be reduced to five:

1. The percentage of average annual losses to the total volume of yearly business.

2. The relation of the total volume of business declined for credit reasons, and that portion of it which would have proved a loss if it had been taken.

3. The accounts receivable measured by the average number of day's sales contained in them.

4. The general office expense.

5. Constructive policies rather than destructive ones.

The value and importance of each test will become more apparent as we progress in the study. It will be necessary to consider the work of a credit man more in detail.

TEST QUESTIONS

1. Why is a credit man needed in modern business?
2. What are the qualifications of a good credit man?
3. What are the tests of a good credit man?
4. Why cannot his superiors afford to reverse the credit man's decisions?
5. In what sense is the credit man a "doctor of business"?

CHAPTER III

THE SOURCES OF CREDIT INFORMATION

In a previous chapter we saw that before Smith could judge whether it was advisable to sell Brown coal on credit, he had to know certain things about him. When we pass from the simple transaction, and survey the complex credit situation which has been brought into existence by modern business organization, we can readily see that it would be impossible for any man to know all about every customer his concern might sell goods to. He must have information, and it must be *detailed, accurate information.*

Not only that, but it must be information of certain specific kinds. In order to be of any use to the grantor of credit, information regarding his proposed customer must have to do with the customer's (1) character, or (2) ability, or (3) net worth, otherwise known as capital. The credit man who passes judgment on perhaps hundreds of doubtful cases a day must know where to go for his information in regard to them. Furthermore, he must be able to get the information quickly. His customers may be touchy and may refuse to wait upon the credit man's convenience. Let us then consider the sources of credit information and how the modern credit man uses them.

MERCANTILE AGENCIES

There are few engaged in any sort of business who are not somewhat informed regarding the two large mercan-

tile agencies—The Bradstreet Company and R. G. Dun & Company, usually called “Bradstreet” and “Dun” for short—and no one expecting to start in business can escape their investigations, whether his operations are on a strictly cash basis or involve buying goods on time.

These now gigantic concerns originated about the middle of the preceding century in a small local endeavor to compile systematically such information regarding individuals as a collection lawyer would need for the handling of claims entrusted to him by distant creditors. From an insignificant beginning both enterprises have grown to such proportions that they now have representatives throughout the civilized world, although their chief activities are confined to the United States and Canada. For this reason, it is unnecessary to consider their methods and procedure outside of English-speaking America, inasmuch as limitations of space exclude a consideration of export trade and its credit problems.

Whoever has buying or selling relations with the public is interviewed from time to time by representatives of Bradstreet and Dun and requested to make a statement of his resources and liabilities. When this is obtained, and it is seldom refused, its accuracy is tested by consulting official records—tax assessors’ and tax collectors’ books, the registry of deeds and mortgages, the transfers of title, etc.—and verified as far as practicable by local inquiry. A special report is then written up containing information bearing directly on the moral risk involved in trusting to a man’s promise to pay. His reputation and character, as known in his home community, as well as his habits, tastes, and affiliations, are duly set forth, and these constitute strong evidence touching his business responsibility, or his lack of it.

RATING

This special report is then carefully studied by officials of the mercantile agency, and the firm or individual reported on is given what is known as a "rating." This rating is in two parts. The first part is a capital rating, and the second part a credit rating. For instance, if an examination of a report showed that a company had a net worth of \$40,000, and all information showed that bills are paid promptly and that discounts were taken when offered, a rating would probably be given of "from \$30,000 to \$50,000—first grade." This rating would be put on the bottom of the report.

RATING BOOKS

Each of the commercial agencies publishes what is known as a "rating book," which is loaned to subscribers, who pay a fixed annual sum for its use. Four editions come out each year, one at the end of every three months. The general rating books are large volumes, subdivided into the various states of the Union, and each state is subdivided into the various cities, towns, and villages. Under the name of each city, town, or village, is an alphabetical list of firms who do business in that locality. These concerns also issue special rating books covering groups of states so compiled as to meet the business requirements of subscribers within specified territorial limits. "Pocket" volumes of cities or states are published to meet special business requirements.

Each name listed in these books bears opposite to it its appropriate rating, expressed in the form of a code, and the key to this code is written on the front cover of the book. This code shows both the capital and credit ratings, so classified that by reference to the

book it is possible to tell at a glance the amount of capital invested and the methods used in meeting obligations.

SPECIAL REPORTS

In addition to the rating book which is issued to subscribers, these agencies, on request, send out copies of the reports which were used, as we have seen, to determine ratings. The subscriber contracts for a certain number of these reports each year, the cost of each report, when a good-sized contract is made, being in the neighborhood of 35 cents.

The mercantile agencies furnish their subscribers with printed requests for reports, which are known as "tickets," (Figure 1). These tickets provide spaces in which the subscriber may insert the name of the company on whom he wants a report, together with the company's address. Blank spaces are left for the date of inquiry, the subscriber's signature, and the ticket number. After being filled out, these tickets are sent to the nearest office of the mercantile agency, and if the agency has a late report on file, it is immediately sent to the subscriber. If not, arrangements are made for getting the report immediately. Authorized employees of the agency, known as "reporters," procure and write up information in report form.

When the company inquired about is not located in the territory covered by the local agency's office, another ticket is made out, by the latter and sent to the district office near which the company is situated. The entire United States is portioned off in small districts, each one controlled by its own district office, and one district office can send a ticket to another one for information in the same way that the subscriber makes a ticket on a local office.

The reports are usually complete, giving full information regarding the previous history of the company, its present condition, and its prospects. The report usually contains what are known as "trade opinions." These are

SUBSCRIBER'S TICKET.	
THE MERCANTILE AGENCY	
R. G. DUN & CO.	
Give us in confidence, and for our exclusive use and benefit in our business, viz.: that of aiding us to determine the propriety of giving credit, information respecting the standing, responsibility, etc., of	
Name	
Business	
Street and No.	
Town	
County	
State	
Subscribers to sign above themselves.	
Subscriber 3035	
CHICAGO, ...	191.....

FIG. 1.—"Ticket"

obtained by the reporter from companies who have had dealings with the concern he is inquiring about, and these trade opinions usually indicate what the company's habits of payment are. If the company happens to be a corporation, a brief history of each of its principal officers will

be given. In nearly every case a recent financial statement is shown. The report closes with a rating, as we have seen before.

MISCELLANEOUS SERVICES

Mercantile agencies also perform another service, one for which they receive no direct pay. Special reports are sent voluntarily, furnishing accurate news of bankruptcies, assignments, foreclosures, ruinous lawsuits, suspicious transfers, mortgages, fires, and serious losses of every kind. Whenever any such unfavorable information regarding any company is received in the district office, a special report is sent to every subscriber who has at any time requested information on that concern. From the files can be determined which subscribers are interested, and the service given by the mercantile agencies in this respect is very valuable. As we have said, no charge is made for this service, and the agencies are not obliged to furnish it.

QUASI-PUBLIC SERVICES OF THESE AGENCIES

Both of these agencies perform a service which is quasi-public in character, and yet of considerable value to the credit man. They report week by week upon general conditions of trade, outlook for the future, crop conditions, banking returns, values of money, rates of exchange, failures, and many other points of general interest. They study and analyze information collected in the course of their investigations. They consider causes for failures, give statistics of the number of failures, and the amount of assets and liabilities, and statistically compare these records with those of preceding months and years. They review the causes of failures, such as incompetence, inexperience, lack of

capital, granting of credits, personal extravagance, fraudulent disposition of property, disasters, and, in short, all factors contributing to business mortalities. This information published in periodical form serves as a valuable guide, or business barometer, to all business men, but more especially to credit men.

VALUE OF AGENCY RATINGS AND REPORTS

The question of how far the mercantile agencies' published ratings or special reports can be trusted naturally presents itself here, for there are failures in business by men whom both ratings and reports designate as good credit risks. However, the number of these cases is relatively small, and it may be assumed that the agencies have fully demonstrated their general efficiency. Indeed, they have every incentive to serve their patrons well, for they cannot hope to exist on any basis but that of giving their subscribers their money's worth. The fact that no wholesale house, manufacturing concern, or dealer of any size feels able to dispense with agency service may be taken as undoubted evidence of its value. Indeed, the large rating books, containing the names and addresses of all dealers in every line and kept practically up-to-date by frequent revision, is worth, as a directory alone, the cost of the complete service of the mercantile agency.

MINOR MERCANTILE AGENCIES

In nearly every city of size there is at least one local mercantile agency catering to the business men of its city. The operations of these smaller agencies are not extensive, but their reports and ratings are often of great value, particularly to credit managers of retail houses. These agencies occupy a field not touched by Bradstreet

and Dun, who report only on business houses and do not attempt to give credit information regarding individuals. Many of these smaller agencies issue rating books, although their ratings do not pretend to be anything more than credit ratings, since the average individual on whom they report would be entitled to no capital rating. The reporters for these agencies obtain their information from retailers in various lines.

BANKS

Opinions differ as to the value of a statement by a local bank regarding the credit standing of a company. If there is only one bank in the town, the company probably is a depositor there, or at all events is of sufficient consequence to make it unadvisable for the bank to risk antagonizing it by an unfavorable statement. If there are two or more banks, the same reasoning holds good, so that in the opinion of many credit men only secondary reliance can be placed on what a local bank says in reply to an inquiry regarding a doubtful credit risk. I do not mean that bankers habitually falsify their statements, but their language is often so noncommittal that the credit man desiring to inform himself in a dubious case can rarely obtain a satisfactory answer from the local banks. The only conceivable method of testing the bank's sincerity is to propose the discounting of such a company's note when indorsed "without recourse." But a note cannot be secured except by parting with the goods, and when the bank refuses to discount, it is belated news as to the signer's responsibility.

In the case, however, of a large wholesale house or manufacturing company which has many banking connections, it is found that information obtained through these banking connections is highly valuable. The

reason for this is that as the inquirer is a customer, he is entitled to the frankest opinion of the bank regarding the proposed credit risk.

Many of the larger banks have installed their own credit departments, and a satisfactory arrangement can often be made with such a bank looking toward the mutual exchange of credit information. The National City Bank of New York, for example, has a large and exceedingly efficient credit department, which yearly sends out countless credit inquiries to all parts of the country. The bank desires this information because of the large amount of commercial paper which it purchases. This commercial paper may have originated from almost any point in the United States. Before purchasing it from the commercial paper brokers, who cannot of course guarantee it, the bank's credit department must make an independent investigation.

COMMERCIAL PAPER BROKERS

In connection with the subject of commercial paper, we may note another highly valuable source of credit information, namely, the commercial paper broker, whose business it is to purchase short-time notes from manufacturing and trading companies who need additional capital for short periods and to sell these notes to banking institutions who have funds to spare. This kind of investment is looked upon with great favor by bankers because of its liquid character. The bank is able to tell just how long its funds will be tied up at the time it invests them.

The commercial paper brokers have buyers all over the country, who, like salesmen, solicit concerns whose paper would prove attractive to banks. Whenever any paper is purchased from a company, a complete report

is made up very much like the report of the commercial agency, except that it is likely to be more accurate, and a late statement is furnished. The report and financial statement are submitted to the banks who buy such paper. If it is possible for the credit man to interchange information with one of these commercial paper houses, he can rely on the accuracy and completeness of its reports. It is not difficult to effect such an arrangement, inasmuch as the credit department of such an establishment is always on the outlook for new sources of credit information.

LOCAL BUSINESS HOUSES

Of all the recommendations a candidate for credit may submit, those coming from practical business men carry the most weight. None is more exacting in his standards or more unbiased than the manufacturer or other reputable man of affairs. Rightly, therefore, the credit man holds opinions from such men in high esteem.

This kind of information is usually solicited by the credit man in the form of a letter of inquiry (Figure 2). This letter may be addressed to men who are creditors of the company inquired about, or to substantial business men in the community, whether it is known that they are interested in the account or not. The local business man is well qualified to give information bearing particularly on the customer's ability and character.

Such information should be sought upon the bases of co-operation and reciprocity. If possible, an equivalent should be given with the inquiry; it is evidence of fairness and, through the good will established, is more likely to bring a prompt and satisfactory reply. (A form for such use is shown in Figure 3. When a credit man receives such a statement of "experience," he is expected

—IMPORTERS—

*Jackson Brothers,
Mens Furnishing Goods,*

—MANUFACTURERS.—

CHICAGO,

NEW YORK,

PARIS,

Chicago, _____ *191*—

M _____

Dear Sir:

We are desirous of obtaining such information in regard to

as will enable us to form a correct opinion of _____ character, responsibility
and business standing.

Any information you may give us will be appreciated and the favor
reciprocated on occasion.

Thanking you in advance for your reply we remain with respect,

Very Truly Yours,

Jackson Brothers.

Reply on other side.

FIG. 2.—Credit Man's Letter of Inquiry

Jackson Brothers

Gentlemen:-

Answering your inquiry regarding
would say

RETAIN THIS FOR YOUR FILES

34 AND 36 WEST PEARL ST.,

Cincinnati, O., 191

Messrs. _____

We give you below OUR EXPERIENCE with

Name _____

P. O. _____

PLEASE CONSIDER INFORMATION STRICTLY CONFIDENTIAL

Yours truly,

APPROVED AND ADOPTED BY
NATIONAL ASSOCIATION OF CREDIT MEN

L. J. LOWMAN & CO.

MEMBERS NAME

Sold Since _____

Terms _____

RETURN THIS TO US

34 AND 36 WEST PEARL ST.,
Cincinnati, O., 191

Messrs. _____

Kindly give us below YOUR EXPERIENCE with

Name _____

P. O. _____

ALL INFORMATION WILL BE CONSIDERED STRICTLY CONFIDENTIAL

Yours truly,

L. J. LOWMAN & CO.

MEMBERS NATIONAL ASSOCIATION OF CREDIT MEN

APPROVED AND ADOPTED BY
NATIONAL ASSOCIATION OF CREDIT MEN

Sold Since _____

Terms _____

Highest Recent Credit \$ _____

Owing Now { On Open Account, _____
 { On Notes, _____Past Due .. { On Open Account, _____
 { On Notes, _____

First Order, \$ _____

Other Information _____

MANNER OF PAYMENT

Discounts _____

Prompt and satisfactory _____

Slow but considered good _____

Slow and unsatisfactory _____

Pays C. O. D. _____

Sell for cash only _____

Account secured _____

Notes secured _____

Account closed for cause _____

Makes unjust claims _____

Collected by attorney _____

FIG. 3.—Trade Inquiry Blank

to file it among his permanent records, returning at once the duplicate properly filled out. Thus each will have the benefit of the other's knowledge, and if a sufficient number of these exchanges are made, the financial status of the customer in question will be revealed to all the credit men supplying thus the "experience" of their houses. Results on such blanks are not by any means uniformly satisfactory, but they constitute one method of exchanging information.

LAWYERS

A lawyer's professional practice renders him familiar with a mass of facts not accessible to those engaged in other lines of business. He is well qualified to reckon the moral, as well as the financial, responsibility of every resident in his community, and in doing this his standpoint is that of a trained observer. Nothing that influences business responsibility can remain long concealed from him, whether growing out of litigation or due to other things affecting property interest, as indicated by official records.

His acquaintance with men's personal history and family affairs often enables him to pronounce on the moral risk involved in trusting to their promises to pay. Wills, bequests, court decrees, judgments, all these things and still others, such as local gossip, and the indirect evidence supplied by public comment on mode of life, personal habits, tastes, and even vices, are at the disposal of the local attorney who desires to report on the character and ability of the man under investigation. Obviously, a competent attorney can render credit services hardly to be expected of anybody else.

The most important difficulty is how to prevail on the local attorney to perform such a service. There is, of

On.....

.....

41 Park Row, New York City

.....

.....

Dear Sir:

Your name appears on our list of attorneys as having represented us, or as being ready to look after our interests, should occasion arise requiring your services. Inclosed, therefore, please find one dollar for which please send us confidentially as complete a report as possible ON THIS BLANK regarding....., especially answering the various questions specified. Delayed reports are of no use, wherefore please be prompt. Do not disclose our name as inquiring. File our name as being interested in the above named business, and advise us at once of any change affecting his or their financial standing.

Yours truly,

.....

Name..... Town.....

County..... State.....

Full names of.....Nationality?...Age?...Married?..

all partners.....Nationality?...Age?...Married?..

.....Nationality?...Age?...Married?..

How long in present business?..... Amount of capital invested? \$..... Ever failed?..... When?..... How

did they settle?..... Ever been sued?..... Ever asked extension?..... Is there any evidence of overdue indebtedness?..... If so, of what kind and amount?

Reputation for ability (good, fair, or bad)?..... Honesty?

..... Promptness?..... Is he doing a good business?

..... Location relative to the business centre?

FIG. 4.—Form for Attorney's Report

stock in good condition?..... Your estimate of stock carried? \$...... Is it insured?..... For how much? \$...... Value of real estate above exemptions and incumbrances? \$...... Value of other assets? \$...... Your estimate of net worth above all debts, exemptions, and incumbrances? \$...... Of whom does he buy goods?

.....

REMARKS

(If there are any answers which cannot be made in the spaces above, please indicate by some mark and amplify in the spaces hereunder)

.....

Attorney's name

Address

(Do not write below this heavy line)

course, nothing improper in enlisting his best efforts, nor is it unprofessional for him to accept pay for these efforts, yet some lawyers resent such a commission by a wholesale house as a reflection on the dignity of their profession. Just how such a view can be reconciled with these same lawyers' alacrity in accepting claims for collection does not appear.

There will always be more or less difficulty in securing the right kind of local attorney, for the better suited one is for the credit man's purpose the less likely he is to need outside clients or the less warm would be his zeal in safeguarding their interests. Just what information is desired and expected of him is shown on the report blank shown in Figure 4. It cannot be expected that an attorney should answer fully all the questions in every case as required in this form for the fee of one dollar sent, since it may be necessary for him to consult official records at the expense of much labor and time. This would call for a special arrangement as to pay. In many cases a shorter report form will prove more satisfactory. It should make clear the point that *special* and *definite* information is wanted in regard to the financial standing, general character, and responsibility of the person about whom information is desired.

COLLECTION AGENCIES

In every city and town there exists at least one collection agency, which makes it its business to collect accounts on a commission basis, its customers being various business houses and manufacturing plants in its vicinity. Arrangements can often be made with such collection agencies whereby they furnish the results of their experience in attempting to make collections. It is not often that their reports are of extraordinary value,

since the mercantile agencies usually get unfavorable information bearing on the slowness of the concern in making payment as promptly as do the collection agencies. The collection agency, however, does form one of the many sources which the credit man should ever keep in mind.

CREDIT ASSOCIATIONS

A nation-wide association of wholesale merchants, manufacturers, and jobbers, willing to make common property of their experience with customers, has long been advocated and several times begun, but the movement has, of course, been limited. To be effectual, it would have to include at least the chief manufacturing and distributing centers where buyers go to select their stocks; otherwise one's having a bad reputation in one market would not affect his purchasing power in another.

There have been in existence for some years organizations, composed of manufacturers or merchants in kindred lines, which act as clearing-houses for the exchange of credit experience. Chief among these is the Credit Clearing House. A brief description of its operation will reveal the general plan of all such organizations.

Its membership is made up of manufacturers and merchants in most of the large trade centers of the country. These members list the names of all their customers, to be filed in one central office. They also furnish, periodically, the names of all new customers. The central office then "posts" from these lists to loose-leaf sheets, each one being headed with the name of a single buyer. Thus, the sheet headed with John Smith Mercantile Company, Madison, Wisconsin, will contain the names and addresses of the manufacturers and whole-

salers from which it buys. There may be three or four, or several dozen, depending on how extensively the company scatters its purchases. Now, suppose it wants to buy from William Jones & Company, with whom it has never dealt before. The credit manager of William Jones & Company sends an inquiry to the Credit Clearing House for information as to others' experience with the account of the John Smith Mercantile Company, giving the amount of their first order. The clearing-house turns to the record of the John Smith Mercantile Company and finds, let us say, that six firms report it as being a customer. These six firms are then requested to give their experience. This they do, and the information is classified in a typewritten report, which goes to William Jones & Company. A sample of such a report is shown in Figure 5. You will observe that no names are shown, only symbols, which indicate the kinds of business conducted by the contributing firms. The operation of the clearing-house is almost automatic, because as each new inquiry is received a new name can be posted to the record of the John Smith Mercantile Company. Each new name gives one more source of information.

This Credit Clearing House detects the man who plans to beat his creditors, because his total orders in all markets are known and any substantial and suspicious increase can be noted and investigated.

THE NATIONAL ASSOCIATION OF CREDIT MEN

Although attempts to unite all wholesale houses in a national organization have not proved entirely successful, it cannot be said that credit men have shown themselves indifferent to their own interests, for they took steps as long ago as 1893 to organize an association for

3-P-1/17-

THE CREDIT CLEARING HOUSE REPORT

IOWA MERCANTILE CO.,

DECEMBER-29-1909-

DUBUQUE, IOWA

H'st	Cr.	Order	Owing	Due	CHICAGO DISTRICT
	\$	\$	\$	\$	
E	0	400	0	0 first	order for
C	1628	596	751	0 slow	sold 2-1908-
B	217	0	100	100 slow	30 days- due November-
cb	500	356	415	0 fair	order for shipment Spring-
					due December- sold several
					seasons-
B	70	0	15	4 slow	satisfactory- due January
					17th terms 30 days sold
					1899 to December-1909-
H	106	0	80	64 allow 30 dys	terms 60 days- sold years-
j	60	0	60	0 slow	30-60 days and discounts in
					10-30 days- drafts paid
					when made- due 2/1910-
					sold July-1907 to November-
					1909-
n	127	0		0 discounts	in 90 days- due 3/21-1910-
					terms regular sold May-29-
					1902 to December-27-1909-
h	1870	0	1164	0 slow	30 days- due December-31-
					1909- terms 60 2/10 and
					dating- sold-1909-

MINNESOTA DISTRICT

J	208	0	208	0 first	order- terms 60 days- sold
					August- 1908 1 bill
B	723	0	331	331 slow	60 days- sold years to
					12/3/1909-

SAINT LOUIS DISTRICT

O	926	597	880	0 slow	15 to 90 days on account-
					order for shipment Spring-
					1910- due January
					1910- terms 60 d ays and
					dating sold August-1908 to
					December-1909-

FIG. 5.—Credit Clearing House Report

THE CREDIT CLEARING HOUSE REPORT—Continued.

H'st	Cr.	Order	Owing	Due	CINCINNATI DISTRICT
	\$	\$	\$	\$	
B	544	0	0	0 discounts	in 30 d ays- terms 60 days- sold March-1907 to December- 1909-
O	756	0	29	0 discounts	terms regular sold years to December-1909-
B	638	0	0	0 slow	45 days- terms usual- sold June-1901 to September- 1908
NEW YORK DISTRICT					
D	85	0	0	0 when due-	
Ee	63	0	0	0 when due	RETURNS GOODS UNJUSTLY-
B	390	25	390	0 slow	terms net- sold 1908- 45 days to prompt- due 4/1-1910- order for ship- ment at once- terms 30 days- sold 5/1-1907 to December-1909-
PHILADELPHIA DISTRICT					
O	-	0	0	0 CANCELED	order \$91.00 7/3/1908
MILWAUKEE DISTRICT					
F	69	0	0	0 discounts	in 10 days- terms dating 2/10 sold 1901 to 1908-
L	57	0	8	0 when due	due February 15th- terms 60 days- sold September-15-1908 to December-15-1909-
Oo	539	0	0	0 slow	30 to 75 days- terms 1/10 30 days- sold /19-1906 to date-
Co	248	0	117	0 slow	30-90 days- due November- December January & February- terms regular- sold August- 1903 to December-1909-
DES MOINES DISTRICT					
nn	251	0	0	0 when due	terms 60 days dating 2/10 1/20 net 30 days- sold years to October-2-1909-
G	50	0	26	20	discounts- all bills- terms regular sold long time-

Fig. 5.—Continued

the advancement of their common cause. Their organization includes some of the brightest men in the country, and their public utterances are the last word on all questions of selling and credit propriety.

In their discussions every phase of credit science is viewed and handled from the business man's standpoint, the illustrations and examples being drawn from recent experience. Many of the association's members possess national prominence as experts in particular branches of credit. The credit man, therefore, who wishes access to the fountain head of knowledge regarding the finer aspects of his profession, must avail himself of everything the association has done to further credit interests.

The association has developed and stood sponsor for a number of standardized forms used in credit investigations. It has also done much to educate business men to a proper appreciation of the use of these forms. This constructive and educational work has been very beneficial in the development of better credit relations. These forms may be secured directly from the association.

In addition to the more obvious advantage of membership in the National Association of Credit Men, as indicated above, there are those that come from the intimate personal relations established during the yearly conventions and continued by correspondence. Such interchanges of confidence, and advice by friends and acquaintances in allied lines of business are invaluable.

Some credit men have found that in their particular line of business they can get better results by writing letters of inquiry to fellow members of the National Association of Credit Men than by sending the blank forms which are illustrated in these divisions. Such letters, if courteously worded and containing requests for specific information, produce the best kind of results.

Both the writer and the receiver of the letter belong to the same organization and have the same kind of aims and ideas, and a certain frankness is noted in replies to letters of this kind, which are rare in the usual credit man's experience.

SALESMEN

The salesman on the road is the man that gets the business for the house. In his special territory he knows personally every dealer in his line. He is a good mixer, and the retailer looks forward to his calls. His duties embrace the acquiring of information, as well as the selling of goods. His constant intercourse with other salesmen and his regular calls on retail merchants put him in possession of all the news as to the trade of his line. His report on a merchant or a locality embodies what he knows from observation, or has learned through inquiry while on the ground. For this reason, the information which the traveling salesman gives, ranks as the first-hand kind, proceeding from an investigator able to judge and anxious to impart. Two typical reports are presented in Figures 6 and 7. The briefer form contains all that a salesman can reasonably be expected to submit. These reports are valuable, but no less useful are his oral reports upon his return from his trips.

The salesman's enthusiasm and desire to sell goods often warps his judgment regarding certain of the credit features. These can be developed from other sources. The immense value of the salesman's report lies in his opinion regarding a customer's ability. A salesman is in a position to compare one customer with another in the same line of trade. He knows which customers use modern methods and which cling to old-fashioned ones. He can give information regarding the condition of the

Name of firm.....		
(Give it exactly and spell it correctly)		
Town.....	County.....	State.....
Full name of partners {	Nationality?..Age?..Married?..	
	Nationality?..Age?..Married?..	
	Nationality?..Age?..Married?..	
Stock consists of?.....	Your estimate of amount of stock carried? \$.....	
How long in business?....	Is it insured? How much? \$.....	
Condition of stock?.....	Value of real estate above exemptions and incumbrances? \$.....	
How many clerks?.....	Value of other assets? \$.....	
Location relative to business center?.....	Your estimate of total net worth above exemptions and incumbrances? \$.....	
What are local opinions as to habits?.....	Is he thought to be making money?	
Ability?		
Expenses?		
NAMES AND ADDRESSES OF THOSE FROM WHOM HE HAS BEEN PURCHASING Salesman REMARKS 		

FIG. 6.—Form for Salesman's Report

Please answer the following questions when you send in your order:

What line of business?.....

Who compose the firm?.....

Age?..... Married?..... Habits?.....

Business capacity (fair, good, excellent)?.....

Prospect for success?.....

How long in business?..... Is he prompt in paying?.....

If he has ever failed, when and where?.....

.....

How much capital invested in business?.....

Average amount stock?.....

(If in the liquor business, amount of annual license?.....)

(If in the liquor business, when does the license expire?.....)

REMARKS

.....

Salesman

FIG. 7.—Salesman's Report, Brief Form

customer's stock and his apparent prosperity on the basis of his window displays and all those other things which go to show whether a merchant is an able business man or not. It is this kind of information that the salesman should be asked to report. Through other sources we can determine what the customer's net worth is, and also his character. You should, therefore, remember that of all the sources of information this is one of the most important if rightly handled.

FINANCIAL MANUALS, PERIODICALS, AND REPORTING SERVICES

For the credit man whose customers are large corporations, such as railroads and manufacturing plants, valuable data can be taken from the various corporation manuals, financial papers, periodicals, etc. These are issued primarily for investors and speculators, and are not intended for the credit man, but since they contain late financial statements, showing the condition of nearly every company of importance in the country, and in many cases show profit and loss statements also, it is clear that the credit man can adapt them to his purposes. The credit department which deals with large and important concerns would do well to subscribe to these various sources. The papers and magazines as they come in should be carefully read, and any items of interest clipped and filed, as will be explained later.

The corporation manuals are issued each year by three or four different companies. They usually come out in two or three volumes for various classes of business, such as railroads, public utilities, etc. No rail mill or railroad supply house could afford to be without these manuals on railroads. They show complete details of financial condition, earnings, bonded and mortgaged

indebtedness, the kinds and amount of capitalization, etc. You will note that this type of information bears mainly on the capital element of credit, and is of but little use in judging the other two elements, namely, character and ability.

TRADE PAPERS

The credit man should carefully read trade papers of the various lines in which his customers are interested. For instance, the credit manager of an iron company should subscribe to one of the foundry trade papers, whereas a jewelry manufacturer's credit man should subscribe to some jewelers' trade paper, and so on. In addition to containing general trade news, they often have interesting items of information regarding customers.

THE CUSTOMER

We have reserved until the last that particular source of information which, on account of its importance, should possibly have been mentioned first. We refer to the customer himself. It is not always possible for the credit man, particularly in a large establishment, to meet all the customers or even a considerable proportion of them. He can, however, arrange to make credit trips around the country, calling on those particular customers concerning whose credit standing he is most in doubt. It would, of course, be absurd for him to make a special trip to visit a million-dollar corporation which purchased only a thousand dollars' worth of goods from his concern during the year. On the other hand, it might be of great importance for him to visit a three-thousand dollar company that purchased a thousand dollars' worth of goods a year. He should, therefore, endeavor to know

best those customers in whom he is naturally interested, and his interest in his customers is not determined so much by the volume of their purchases as by the ratio of their purchases to their net worth.

Often when a concern is seeking a line of credit, its representative will visit the credit man, endeavoring to establish a satisfactory arrangement with him. Such an opportunity is invaluable, because the credit man then has an opportunity to learn many things. If a buyer is adroitly led to express himself on market conditions and the trend in his particular line, it will soon be apparent whether he is shrewd or uninformed. The credit man should have no more difficulty in steering the conversation in this channel during the first interview than an engineer or a chemist, for example, experiences in causing a man to reveal himself as an expert or novice in engineering or chemistry.

Shrewdness does not insure honesty, but a clever buyer, by the wise selection of goods, insures that they will be salable, and thus increases his power to pay bills at maturity, whereas the uninformed buyer is apt to overstock with poorly selected goods, which detracts from his ability to meet his obligations when they fall due. It is not the business of the credit man to give instruction in correct buying, but when he recognizes shortcomings in this regard, it is clearly his duty to minimize the chances of loss to his employers by curbing the customer's inclination to overbuy. Injudicious buying on the part of the retailer always results in his having slow sales and small profits, which means uncollectible accounts for the wholesaler. As a consequence, it is far better to reject such business altogether than to incur loss through accepting it.

It is manifestly easier to judge an unknown customer's

I of
 for the purpose of obtaining credit with JACKSON BROTHERS, of Chicago, Ill., do make the following statement and representations of present true financial circumstances, wealth, mercantile connections, assets and liabilities, which said representations shall be the basis of credit with JACKSON BROTHERS, for this present purchase, and for all purchases hereafter.

Name of firm a co-partnership composed of

ASSETS	AMOUNT	LIABILITIES	AMOUNT
Stock of goods on hand at value		For merchandise (give name and date when	
Furniture and fixtures		due on other side)	
Notes and accounts, good		Chattel mortgage	
Cash on hand or in bank		Upon what property	
Other personal property			
Real estate, market value		When due	
Give name of person holding title—say			
whether homestead		Borrowed money	
		When due	
		Rate of interest	
Annual sales, \$		How secured	
Annual expense, \$			
Insurance, \$		Encumbrance on real estate	
References:			
		Amount of past due notes	
		Amount owing on judgment notes	
		Are you surety on notes or bonds?	
		Confidential and other debts not included above	
Total assets		Total liabilities	

The answer to all questions not answered hereon in writing is "No." The above statement, both printed and written, has been carefully read by

Signature

OVER]

FIG. 8.—Financial Statement

NAMES OF CREDITORS

[illegible]

skill as a buyer than it is to conjecture his promptness in paying for the goods. The former characteristic reveals itself at once; the latter cannot be discovered before the debt becomes due. If ability to select goods suited to the needs of the community where they are to be sold is accompanied by unmistakable marks of prudence, judgment, system, and orderliness, there is strong reason for inferring that payment will be prompt. On the other hand, if a man keeps no books, carries no insurance, and lets his business run itself without order or system (which things are often frankly acknowledged in the course of a conversation), there will be little profit and less satisfaction from opening an account with him; for no degree of personal honesty counterbalances incompetency, which results in bankruptcy.

Where the credit man can visit the customer's place of business, whether it be a retail shop or a large manufacturing plant, he is able to gain certain information which he can obtain in no other way. To the credit man's inquiring mind many things about such an establishment are significant. He can direct his questioning along profitable channels, instead of feeling in the dark. He can judge a man's or a company's efficiency or inefficiency quickly after he has seen the place of business.

In connection with these credit trips, a credit man can visit the banks with which he has been in correspondence and by shrewd questioning obtain data which the banks may not have furnished before. A banker cannot so easily assume a noncommittal attitude when talking face to face with the credit man as he can when writing him. We shall have more to say about personal interviews later on. It is in such interviews that a credit man has an opportunity to prove his worth.

THE SIGNED STATEMENT

In connection with this section we should not omit a discussion of that most important document, the signed financial statement. A new customer of a wholesale house or manufacturing concern will be asked to submit a financial statement. Forms of such statements are given in Figures 8 and 9. It is well to study their reach and weigh their importance, for on the accuracy and completeness of this document often depends the confidence placed in its signer. If his replies lack precision or conflict in a way indicating an endeavor to evade, they are far more hurtful to his purposes than a frank admission of unfavorable circumstances would be. This is not surprising, for if a man deliberately misstates facts as to his financial condition, it can only be with the object of defrauding, and such an attempt at the outset shows that small belief could be placed in anything that he might say or promise later, if he were permitted to buy goods on time. Signing a false statement in order to form the credit man's decision can be made a basis for legal action, there being an intent to defraud.

In the early days of scientific credit-granting, it was customary to include in the statement blank every kind of question recognizable. In some cases hundreds of queries in small type were inserted. The confusing effect on the business man who received one of these blanks is apparent. Often he was actually afraid to sign it. The modern tendency is to simplify the statement blank, making it easy to understand and sign. After a man has once signed such a statement, it is easy for the diplomatic credit man to get further information. The customer finds difficulty in refusing additional data because he has put himself on record as being willing to furnish

PROPERTY STATEMENT BLANK
 Adopted and Recommended by the National Association of Credit Men
RICHMAN & CO., NEW YORK, N. Y.

For the purpose of obtaining credit and to induce you to sell me (us) merchandise, I (we) make the following statement in writing, intending that you should rely thereon respecting my (our) financial condition.

BUSINESS ASSETS		BUSINESS LIABILITIES	
	Dollars		Dollars
Cash value of Mds. on hand, not on commission		Owe Open Accounts for Mds. not due	
Fixtures and Store Furniture		Owe Open Accounts for Mds. due and past due	
Amount of open book accounts, actual value		Owe Notes for Mds. not due	
Notes good and collectible		Owe Notes for Mds. due and past due	
Cash on hand and in Bank		<i>Borrowed Money</i>	
Cash value of other personal property described as follows:		(If addition to above list see including real estate mortgages)	
		Owe Bank	
		How secured	
		When due	
		Other borrowed money	
		How secured	
Total Assets		Total Liabilities	
(Not including Real Estate)			

RECORD OF ALL REAL ESTATE OWNED

TITLE IN NAME OF	DESCRIPTION AND LOCATION	VALUE	Died in Testament or Current Estate	AMOUNT OF ENCUMBRANCE

Do you pledge or sell your accounts or bills receivable to credit-
 ors, banks or finance companies? _____
 If so, what amount are so pledged? _____
 What amount of your accounts or bills receivable have you
 pledged or sold during the past twelve months? _____
 Any chattel mortgages? _____ To whom? _____ On what? _____
 When did you commence present business? _____ Formerly engaged in _____
 Date of last inventory _____ Amount \$ _____
 Amount of last year's sales _____ Last year's expense \$ _____
 Are there any judgments on file against you? _____ Are there any claims in attorney's hands against you? _____
 What amount of commission goods have you on hand? _____
 Have you any indebtedness to friends or relatives not stated above? _____
 PLEASE ANSWER ALL QUESTIONS. WHERE NO FIGURES ARE OBSERVED, WRITE WORD NONE

The foregoing statement has been carefully read (both the printed and written matter), and is to all respects complete, accurate, and truthful. It discloses to you the true state of my (our) financial condition on this _____ day of _____, 19____, and since that time there has been no material unfavorable change in my (our) financial condition, and if any takes place I (we) will give you notice. Until such notice is given, you are to regard this as a continuing statement.

Where lack of space prevents
 explanation, use other side.

Firm _____
 By _____ Member of Firm
 Town _____ State _____

Names of members comprising firm, or officers if a corporation.

Be sure to Give a Complete List of Houses You Deal With and Amount During Each One on reverse side of this sheet

OVER

Fig. 9.—Combined Statement and Mailing Envelope

facts regarding his business, and cannot gracefully change his attitude.

The scope and variety of the information that the signed statement is intended to bring out can be gathered from the forms at the end of this chapter. They are a product of long experience and, if properly answered, elicit every useful fact that the credit man needs for his purpose. Business men solicit the opportunity of furnishing agencies with the information that is to be the basis of their ratings. Similarly, the signed statement requested by the wholesale house or manufacturer should be regarded as the occasion for securing recognition, and hence should be made full, explicit, and conservative, bearing evidence of its truthfulness and accuracy, since otherwise it cannot serve in the support of future business esteem.

CONCLUSION

The foregoing completes the catalog of usual sources of credit information, together with a description of each. That there are other sources cannot be denied. They are, however, not so general in their nature, and are used by the credit man at rare intervals or in unusual situations. It would be profitless to go any farther into this subject, except to say that the credit man must always be absolutely "hungry" for information. He must be forever reaching out for more information, and ever seeking new sources through which he can obtain it.

TEST QUESTIONS

1. From what sources do the mercantile agencies obtain their information?
2. What two kinds of information are given by an agency rating?

3. Under what circumstances are banks good sources of credit information?

4. Wherein is a salesman's credit report valuable, and wherein is it valueless?

5. What is the best kind of information that the credit man obtains from a face to face talk with the credit seeker?

CHAPTER IV

HANDLING CREDIT INFORMATION

It is easily seen that it would be impossible for the credit man to investigate every applicant through all the sources which we have discussed. The mass of data would be too unwieldy, and a great deal of the information received through one source would be duplicated by that coming from other sources.

It appears essential, therefore, for the proper guidance of the credit man, that these sources of credit information be classified according to the kind of information which they can best furnish. If, for instance, we find that the salesman can furnish excellent and trustworthy reports regarding the proposed customer's business ability, that a financial statement direct from the customer is undoubtedly the best way to uncover facts regarding his net worth, and also that the local bank can give us an accurate estimate of his character, we have covered the entire *field* of information which we desire.

It would be absurd to obtain all our information from sources which were particularly explicit regarding the capital element, and more or less to neglect the other two important factors of character and ability. The information we get must be well balanced. We can only pursue our investigation intelligently if we know just what kind of information each source is best able to furnish. Some sources of credit information like Bradstreet and Dun cover, rather completely, all three of the credit

CHARACTER	ABILITY	CAPITAL
R. G. Dun & Co.	R. G. Dun & Co.	R. G. DUN & CO.
Bradstreet	Bradstreet	BRADSTREET
Other merc. agencies	Other merc. agencies	OTHER MERC. AGEN- CIES
BANKS		Banks
Paper brokers		PAPER BROKERS
LOCAL BUSINESS MEN	Local business men	
TRADE REFERENCES	Trade references	TRADE REFERENCES
COLLECTION AGEN- CIES	Collection agencies	
N. A. C. M.	N. A. C. M.	
	SALESMEN	
Customer's letters		CUSTOMER'S LETTERS
VISIT TO CUSTOMER	VISIT TO CUSTOMER	
		CORP. MANUALS
		FINANCIAL PAPERS

Explanation.—One source of information, such as “Bradstreet,” may appear in all three columns. This means that Bradstreet is able to furnish information of value bearing on all three elements. In one of the three columns you will note that the name is capitalized, which indicates that Bradstreet is particularly well equipped to give information regarding the capital element. Where the same name is capitalized in two columns, it means that the source can be depended upon to give a good line of information regarding both the elements.

FIG. 10.—Classification of Information Sources

Showing which kind of information they are best able to furnish.

factors, but even these two institutions are better able to report on a company's financial standing than they are on the character and ability of its officers and directors. This is because the financial information is rather easily obtained by the mercantile agency reporter, both from the customer and from the official records,

such as the tax assessors' and the tax collectors' books, the registry of deeds and mortgages, etc. On the other hand, the local business man of whom we may inquire is in a position to disclose accurate information regarding the character of the person inquired on, while his estimate of the net worth and financial standing may be inaccurate.

CLASSIFICATION OF SOURCES

In Figure 10 we have classified the various information sources and have shown which kind of information they are best able to furnish. Such an analysis at best can serve only as a guide. Every credit man will have to figure the thing out for himself, and probably no two credit men will agree as to the value of different kinds of information. No cast-iron rules can be laid down, and the reader is warned to accept this chart merely as an expression of one credit man's opinion. Some such analysis, however, should always be made when the size of the credit department justifies it. Experience will soon show the proper classification for any particular line of business.

In this connection, it may be well to note for future reference that there are a number of excellent sources of information regarding the capital and character factors, but that on the ability side the really reliable and important sources are few. This will be discussed in detail later.

COMPARISON OF CREDIT FACTORS

To a man who is more or less familiar with credits, a certain portion of our theory of credit may appear strange. We have laid particular stress on the two personal credit factors, namely, character and ability, and

have said that the capital element was not of the same nature as the other two, but, in reality, was in the nature of insurance against external factors which could not be foreseen. The reader possibly knows that most credit men emphasize the capital factor very strongly in their investigations, and that a customer's net worth and sound financial condition will obtain for him a large amount of credit, where if he had only excellent character and ability to back him, he might be restricted in his ability to purchase on time.

There is no contradiction involved, although at first sight there seems to be. With the large volume of credit transactions which pass through the modern business house, it is often impossible to obtain what is known to be accurate and detailed information regarding the two personal elements of character and ability. The credit man may be able to learn in a general way that the customer has always been recognized as a man of high character, and that his associates and acquaintances and the salesman for the house regard him as a man of marked ability, but this is not first-hand information, nor can it be relied upon too far.

Character and ability are such intangible things, and so incapable of being measured and charted, that it is really far easier, and possibly more satisfactory in the long run, for the credit man to look closely into the customer's financial condition, which in most cases can be determined with a considerable degree of accuracy. We wish to emphasize right here that this is not because the credit man fails to recognize the overwhelming importance of character and ability, but because he is unable to get the same close accurate information regarding them, that he can obtain in regard to the financial condition.

Furthermore, most credit men recognize that the financial condition of a company is one of the best ways of measuring the character and ability factors. The line of reasoning which leads to this conclusion is, of course, simple. Given a man possessing high character and marked business ability, it would be strange if he did not make money, and in a rough way it can be stated that the higher his character and ability run the better will be his financial condition. Unfortunately for the credit man, however, it is not true that large earnings, and therefore a favorable capital factor, always measure character. Crooks, if possessed of good business ability, can often accumulate means rapidly, but of course their prosperity is not on a sound footing. They are, therefore, dangerous for the credit man to do business with. We can, however, without fear of contradiction state *that in nearly every case large earnings are indicative of marked ability, and that they may be indicative of high character, particularly if the business has been running for a period of years.*

How about the man who is just starting in business, who starts with no capital, and whose ability cannot be measured by his earnings because they are all in the future? We must study such an applicant for credit with the greatest of care. We must investigate every information source to determine the degree of his ability and character. If we find that he is possessed of both in an unusually attractive way, we may safely extend him credit for his requirements.

In this kind of a situation, the credit man has an opportunity to perform a really constructive work. The top-notch credit men in the United States do this all the time. They are actually on the hunt for customers who possess to an extraordinary degree the two personal

credit factors. Then, by good counsel, and even more by material assistance, they bind this desirable customer to their house with unbreakable ties, so that when he becomes a large and much sought-after buyer he continues to trade with his old friends who started him in business, turning a deaf ear to the other wholesalers, or manufacturers, as the case may be, who did not seek his business until he became wealthy and influential.

CREDIT FILES

To come back to our subject, we have seen that through various sources there comes to the credit man each day great masses of information. This information must be handled systematically, and so preserved that it may be efficiently used. This brings us to the subject of credit files. It is important to recognize at the outset that when we speak of credit files, we refer to all means of preserving and classifying credit information in a convenient and compact form. We must look at the purpose and disregard the form, at least for the present.

CLASSIFICATION BY CUSTOMERS

The information must be classified according to customers. The credit man must be able to go to a given file or cabinet and obtain in one file-jacket, or in one envelope, or on one card all the information which has been received regarding the customer. This means that we must consolidate all the information which comes from the Bradstreet Company, R. G. Dun & Company, various banks, etc., regarding John Smith's credit standing in John Smith's credit file.

In all but the small business houses the mass of original information becomes so great, after a few years' time, that it is necessary to boil it down in some compact

and efficient way. No credit man has the time to run through and study carefully a great mass of bank letters, agency reports, salesman's reports, etc., which have been accumulating, perhaps for years, in a credit file. He must have the really important facts summarized, and thus do away with all unimportant and duplicated matter.

Just how this should be handled depends upon the size of the credit department and the volume of business which it handles. But that it should be done cannot successfully be denied. Of course, for the country store-keeper an elaborate credit department would be absurd, but for the ordinary wholesaler and manufacturer, certain principles for utilizing information should be recognized.

CLASSIFICATION OF INFORMATION

The first general principle which should be recognized in some way or another is that in summarizing information it should be done according to the three classes—character, ability, and capital. Whether this is done by actually cutting the information up into three separate parts, or whether it is done by summarizing information on three separate sheets or in three separate columns, is unimportant. Indeed, one of the most effective credit-file arrangements which we know anything of handles these various classes of information on the summary sheet as follows. Each time a batch of information is summarized, character elements are first treated, then those bearing on ability, and lastly, those having to do with capital. No formal attempt is made to separate them, but they are always kept in the same order, and if the credit man desires to make a study of a particular customer's ability, he knows that in the middle section

of each write-up he can find information bearing on that quality.

The next credit-file feature of importance is to have all unfavorable information so indicated that it will catch the credit man's eye unfailingly. It makes no difference whether we have all such unfavorable information written in capitals, or underlined, or emphasized by the use of different-colored inks. It should be so easily seen that there can be no excuse for overlooking it. The reason for this is that it is rare for the credit man to refuse credit to a customer without carefully going through all the available information, but unfortunately during rush periods he may approve business, which, if he had considered carefully, he would have turned down.

The next point which all credit files should have in common has to do with financial statements. When financial statements are received through the various sources they frequently come in unusual form, and it is necessary to standardize them. This can be done by rewriting the statement on a standard blank form. Then, when the following year's statement is received, it can also be written on the same blank form in an adjacent column. When two or more statements are on file, the credit man is able to make invaluable comparisons.

A sample of a convenient classification blank is shown at the end of this chapter. In studying this blank, you will note that near the bottom a summary is provided showing the liquid assets, which consist of cash and notes and accounts receivable and under which is shown a total of current liabilities, and that to the difference between these two figures is added the inventory items, giving the net quick assets.

It is obvious that working a large volume of informa-

tion into shape requires considerable labor and some ability. In a credit department of size, however, the results justify the expenditure of time and money.

RECORD OF PAST DEALINGS

Finally, the credit files should provide for some record of the customer's past dealings with the house. This should be in a convenient form, should be easily accessible, and should show the volume of business which is transacted with the customer according to years and months, the maximum of indebtedness during each fiscal period, and the promptness with which the customer paid his accounts.

MISCELLANEOUS FILES

In certain lines of business a credit file should be supplemented by explicit records on customer's references and banks and the attorneys supplying information in answer to special inquiries as to standing and reliability. These supplementary records, whether in card, envelope, or ledger form, should have under the name of each individual, institution, firm, or attorney, a list of all persons reported on, and the entry should be made to show in how far the information received is reliable.

In the case of a house handling a large volume of business distributed over a wide territory, a record by states, cities, and towns is imperatively demanded, for it is often as necessary to look up the status of the section or town as it is to discover the standing of a man doing business there.

In every business the filing system should be adapted to the particular needs of the business. To prescribe any specific "system" would be as senseless as to prescribe medicine without having made a diagnosis. We have

attempted to indicate a few practical tests for the services that should be rendered by a good credit filing system.

RELATION OF CREDIT TO OTHER DEPARTMENTS

This chapter would be incomplete without some treatment of the way in which a credit department keeps track of various customers' accounts. In some lines of business a loose-leaf book may be kept containing a ledger sheet for each customer. We have reproduced such a sheet in Figure 11. Each sheet is headed with the name and address of a customer, with his file number shown in the upper left-hand corner, and with his present terms and credit limit indicated in the space provided. Debits to these various accounts come from carbons of the customer's statements, the originals of which are sent out by the bookkeeping department to the customers. On the first of each month these carbons are referred to the credit man. He posts the month's account opposite the proper month and in the column under the words "total sales." On the extreme right-hand side under the words "monthly balance" is put the total of the account. To illustrate, suppose that on the first of June a statement shows \$1,000 bearing April dating and a \$1,000 bearing May dating. We pay no attention to the April item which was handled the previous month, but opposite the word May we post the amount of \$1,000. Keeping on the same line but on the right-hand side of the page and under the words "monthly balance," we post not \$1,000, but the total of the account, \$2,000. We keep the record in this way in order that we can see at a glance what has been the highest amount of credit that we extended to our customer.

The bookkeeping department reports to the credit de-

partment all remittances received each day. These various remittances are posted to the appropriate sheets in one of the four columns under the words "how paid." Of course, they must be posted on the same line as the debit which they offset. The four narrow columns shown under the words "how paid" are used to contain figures showing how promptly the account was paid. If a January 15 account amounting to \$100 is paid on February 15, terms 30 days, we should put in one of the four payment columns the date and the amount paid, \$100, and in the narrow column a zero, showing that there was no slowness. If, however, the same January 15 account should not be paid until February 20, the figure 5 would be inserted in that narrow column, indicating that the payment was five days slow.

At the end of the calendar year all the debits are totaled on the bottom of the sheet. The right-hand column under the words "monthly balance" is scanned, and the highest figure shown therein is noted and transferred to next year's sheet in the upper right-hand column, immediately under the words "monthly balance" and in line with the words "previous year." Total debits are transferred to the new sheet, under "total sales" and opposite "previous year." And on the same line under the words "how paid," we may put in a brief memorandum describing in a general way the customer's manner of payment during the past year. These sheets contain the current year's experience and a summary of the previous year's experience. The old sheet is filed permanently in the customer's credit file.

The bookkeeping department is expected to indicate through what bank the customer's check was made payable. The names of these banks are posted in the upper right-hand corner of the ledger sheet. By glancing at

D......

[illegible]

1915

[illegible]

FIG. 11.—Credit Department's Ledger Sheet for Each Customer

[illegible][illegible]

his sheet we can know what bank the customer does business with, and write the bank a letter asking for late information.

The procedure here indicated with regard to this credit department "ledger" would involve too much red tape for any but those concerns which actually need such information in readily accessible shape. For the sake of completeness, it is described in this volume, but the authors feel that they would fail in their duty did they not warn the reader against uselessly multiplying records.

Records such as these cost money—often a great deal of money—and they should not be kept unless their usefulness is demonstrable without a shadow of a doubt. The credit man should conduct his department with *minimum* losses, *minimum* orders declined, and *minimum* expense. These are the ultimate tests of a credit man's success. In studying this and other chapters, these standards should ever be borne in mind. Useless information should never be purchased, and useless records should never be kept, or the credit man will degenerate from the constructive executive to the "system" crank—hopelessly tied up in his own red tape.

TEST QUESTIONS

1. (a) What is one of the best sources of information regarding a customer's ability?
 - (b) Regarding his capital?
 - (c) Regarding his honesty?
2. What is the purpose of the credit file?
3. When is it worth while to summarize or "boil-down" credit information, taking into consideration the expense of doing so?
4. How should credit information be classified in the file and why?

CHAPTER V

USING THE INFORMATION

We saw in the last chapter that the great volume of information which comes to the credit department must be so classified and distributed that all data bearing on the credit of any customer may be located in one file, and that the matter in this file should be arranged in an orderly fashion. The next point of importance which we must consider is how this information can be used. The primary reason for collecting it is to give the credit man something definite to go on when he decides whether or not a given person or concern is to be sold goods on time.

TERMS OF SALE

Nearly every line of business has a set policy as to "terms of sale" on the varying line of goods which it carries. The "terms of sale" refer directly to the arrangement which the credit department makes with the customer as to time of payment. A common quotation of terms in many lines of business is "30 days." This means that the customer is to pay for the commodities he purchases within 30 days after date of their shipment. Customary rates of discount for cash payments have been established in most lines of business. These rates vary. Usually, the longer the term of credit the higher the discount, because the greater the risk. The rates of discount cover losses.

A few words of caution will not be inappropriate. The advantage of taking these discounts, where working capital will permit, is often overlooked. If the merchant is in good standing at a bank, he may even profit by arranging credit there, because bank rates of interest are lower than the rates charged by lenders of merchandise. There is hardly any line of business in which, considering turnovers, the discount for a year does not amount to anywhere from 12 to 18 per cent, and in some cases even more. These discounts may represent the difference between profit and loss at the close of the year, and in all cases they add to the profits. The aim should be at large sales, quick turnovers, and full discounts.

In this same connection reference should be made to the custom of dating ahead. This practice grew out of the efforts to induce wholesalers, jobbers, and retailers to make their purchases of seasonal lines long before the actual shipment, say 30 or 60 days. Generally the regular trade terms become operative after this date. Thus, goods may be purchased in January, dated in March, and, on 30-day terms, become payable in April.

It is important to note that the phrase "terms of sale" does not necessarily refer to the *time* which is allowed the customer, but to the arrangement between the buyer and the seller as to payment. Goods may be sold on a cash basis, no time being allowed. In this case the terms of sale are "cash with order," and the customer must pay for goods before he receives them.

RULES CONCERNING TIME

The time allowed by the terms of sale may vary all the way from a day or two to as much as a year, or even longer. The factors which determine the terms of sale

in the various kinds of business for different commodities deserve some discussion.

For example, an agricultural implement company purchasing steel from a rolling mill is entitled to, and usually receives, terms varying from six months to a year. A small railroad purchasing steel rails from the same company will probably be asked to pay cash, the terms quoted being "sight draft against B/L" which simply means that before the rails will be delivered the customer must pay draft drawn on him by the rolling mill before the bill of lading will be released. Since in this case the customer cannot obtain the rails without surrendering the B/L, cash is actually paid in advance.

In this connection you should note that there is an element of risk in shipping even on these terms if the goods are special in nature, or if the distance from the shipper to the customer is sufficiently great to make high freight rates. The risk is that the customer may refuse to receipt the shipment, alleging lack of money or change in mind. His idea, of course, is to effect a compromise settlement with the shipper. In the case of standard commodities like coal the danger is less, since if the consignee refuses the shipment, it may be disposed of with little or no loss to others. Where the goods are "special," made to order or otherwise not easily marketable, it is often wise to obtain a substantial cash payment in advance.

Assume, for example, that the agricultural implement-manufacturer and the small railroad have an equally high credit standing. Why should the one be allowed so much time in which to pay for material and the other be allowed no time at all? Or, take another example: Coal mines usually sell considerable tonnage to so-called "coal brokers," who resell it again to retail dealers.

The customary terms are 30 days, and the coal broker is expected to live up to these terms strictly. The same coal, if shipped in the spring of the year to a dealer located in an agricultural community, may carry six months' time.

Why should such conditions exist?

One of the reasons we hinted at in our beginning chapter, when we submitted two simple credit transactions for analysis. In the first illustration, when Brown bought coal he immediately sold it to his customers, and in the second illustration, when he bought the horse and wagon he did not sell it, but kept it in his business. The horse and wagon became one of Brown's permanent assets. According to the rules of credit, Brown should have paid for the horse and wagon almost at once. Before buying this horse and wagon, he should have made arrangements to finance his purchase. He should have entered into an arrangement with a money-lender regarding the mortgage loan before he actually completed the purchase.

This is a general rule in nearly every business transaction involving the purchase of a permanent asset. A railroad wishing to extend its line will make arrangements for placing a bond issue before completing the purchase for rails. Funds should be available to pay for the rails before they are shipped, since the seller cannot justly be called upon to finance the purchase of fixed assets. That is the function of the bond house or the financial agent.

In our second simple credit transaction, Green could not be expected to take a mortgage on the horse and wagon which he sold to Brown, nor could he be expected to wait until the horse and wagon could be paid for out

of Brown's earnings. This would take entirely too long a time.

Where the merchandise moves quickly, as in the first transaction, it will be turned into money again within a reasonable length of time, and payment can then be made. Smith will be well satisfied to make his sales on such a basis providing, of course, that Brown's credit is satisfactory. The same line of reasoning applies in the case of the coal broker that we mentioned in a preceding paragraph. You see, then, that one of the factors determining the terms of sale is the use to which the material will be put. The man who buys horses and wagons for immediate sale will demand and get different terms from the one who purchases for permanent investment.

But how about the agricultural implement-maker who is granted a long time in which to pay for material? The explanation is along the same lines. Implement-makers sell to dealers in farming communities. Farmers can only pay for goods purchased when they have sold their crops. Crops can be sold but once a year. This means that the dealer would be paid but once a year, and that he can pay the implement-manufacturer but once a year. The implement-manufacturer then passes the responsibility on to his source of supply. *The terms of sale to a customer will bear a well-defined relation to that same customer's terms of sale to others.* This rule applies to all commodities intended for resale. The primary object of mercantile credit is to enable the buyer to pay for his goods from the proceeds of his sales with quick transportation, rapid turnovers, narrow margins of profit, and excellent bank accommodation in all sections of the country—the natural tendency is toward curtailing the time of credit.

The seller, however, cannot and will not, in the majority of cases, assume banking functions, so that when the article purchased is not to be resold, but is to be retained as a permanent asset in the business, the buyer must look elsewhere for his financing. Funds are promptly obtained through the negotiation of a mortgage and can be turned over to the seller upon the receipt of material.

We might further illustrate our theory in the case of a contractor, since payments by contractors are irregular. The contractor constructing a building purchases concrete and reinforcing steel. He can pay for these purchases when the owner of the building pays him. The majority of contractors obtain cash from their customers every month, although a definite percentage of the amount due to the contractor is retained until the job is entirely completed. Should there be any dispute regarding the work done in any one month, it is likely that the contractor will not get his remittance promptly. If this is true, the concrete company and the steel mill can be pretty sure that their bills for that month will not be paid promptly either. This uncertainty regarding a definite time of payment is taken into consideration when selling contractors.

When we come to the retailer, terms of sale are often little standardized. The applicant comes in person, often in the person of a woman. Credit judgment, in opening the account, must be based almost exclusively upon facts that can be learned during the interview. Later these facts may be checked by private investigation. Terms differ in cities and rural vicinities, in one-crop and diversified agricultural regions, etc. In a pay-roll community terms are adapted to the payday periods. There is a tendency to place 30-day (or even

less) limitations on running accounts. Limits are often placed upon the amounts of monthly credits extended, varying with the account and the character of the purchases. The retailer's credit problems call for eternal vigilance.

We have tried to give in a general way an idea of how terms of sale are established. No definite rule can be laid down because of the many factors which may be of influence. Competition, for instance, often does strange things to establish terms of sale. Extended time will be offered to the trade in order to gain patronage. Last year, in a certain coal-mining district in the Mississippi Valley, competition became very intense. Much price-cutting resulted and, what was even worse, trade customs regarding terms were upset. Terms of 6 months, a year, and 18 months were freely offered. Some buyers were told that they could have coal and pay for it whenever they wanted to. Freights were prepaid by the house and long periods of time allowed to the customers to repay them. The inevitable result of this kind of madness is acute financial embarrassment. Continuous drains on cash with no returns for a period of months means the tying up of a considerable amount of capital in outstanding accounts, which are not liquid as they should be. Embarrassment and bankruptcy will surely follow if such practices are long continued.

We can now pass from the discussion of terms to a consideration of how the credit man analyzes the situation before signing terms. No definite rules can ever be laid down as to how information regarding a customer should be analyzed. Only general instructions can be given.

In the two typical credit situations mentioned in our first chapter, we saw that our analysis of Brown's char-

acter and business ability was made by both Smith and Green. We also noted a little later on that a third element was introduced, namely, capital. The credit man analyzes his information along exactly the same lines. He studies carefully all facts bearing on the customer's character. In case the customer is a corporation, which in itself can have no character, he studies those facts bearing on the character of its officers and directors.

ANALYSIS OF CHARACTER

Character is a matter of honor, both business and personal. From the credit man's point of view, character measures a man's intention or inclination to pay his bills. An investigation should cover a customer's past history, and must determine whether it has always been an honorable one. A customer's personal actions and deportment serve as a reliable index to his character. If the customer has a good reputation and high personal honor, if his history shows that he has never been engaged in shady transactions, and if he keeps good company, we may feel reasonably sure that his character is all it should be.

The credit man's eyes are open to many things that influence his estimates negatively, trifles perhaps, yet indications of business irresponsibility: a chance remark, an approval of some flagrant swindle, an exhibition of interest in municipal graft, or an expressed willingness to profit by it, a relish for newspaper scandal, the interlarding of conversation with vulgarity—these are among the irrelevant things on which the credit man sometimes bases his refusal of credit.

Frequently an undue loudness in clothes, or a disgusting display of jewelry may prejudice an applicant's chances for favorable consideration, so disposed are

credit men to draw specific references from outward show. The writer was once informed that a boast of having evaded the payment of a street-car fare led to a credit man's refusing to approve a sale to a retail merchant who had shown himself proof to all usual tests imposed. In the interests of business psychology, this affair should have been carried farther by investigating whether this particular instance of withholding credit was justified by the retailer's subsequent thefts on a larger scale, but even if this had been the case it would be unwarrantable to found a general procedure on an isolated fact.

Many of the best credit men, bankers, and financiers regard character as the most important element of the three credit factors. The late J. P. Morgan took this stand, and it is said that he often made loans of large amounts to men without capital when they possessed both character and ability.

ANALYSIS OF ABILITY

When the credit man has estimated as accurately as he can the character of his customer, he must then consider his ability. He must obtain the answer to this question.

"Is he a good business man?"

This means a well-rounded business man. A man may be brilliant along certain *technical lines* and still fail miserably in *financial matters*. In a general way, we measure a man's ability by his personal income gained through his own activities. The way in which he was educated, and the kind of experience he has had, throw interesting light on the subject. These things, however, are not definite enough. The credit man likes to be able to form his judgment on facts rather than upon vague impressions and opinions. In order to do this, he must

be a specialist in many lines of business. He should be thoroughly acquainted with every line of business in which his customers are engaged so that he can study their ability through their accomplishments. A survey of a man's factory and a glance at his records will show whether the man is able or inefficient.

A thorough analysis might cover the customer's method of advertising, the location and the size of his plant, the kind and the number of machines that he uses, the cost of his power, the system of his organization, his purchasing and selling customs, his nearness to supplies of raw materials and to his markets, his accounting and bookkeeping system, and so on almost indefinitely. The credit man tries to ascertain whether the customer shows good sense in his relations with his banks, whether he overtrades or overbuys or pays excessive dividends, whether he fails to take favorable discounts or does not carry fire, life, and casualty insurance, whether he preserves a proper ratio between his trading assets and liabilities, what his "turnover" of goods is and should be, and whether he shows economy, not stinginess, in the management of his business.

ANALYSIS OF CAPITAL

When the credit man has fully investigated the ability factor, he may turn his attention to capital. Here he can get accurate information in definite units, and his analysis, therefore, will be less cloudy than it was in connection with character and ability. This inquiry tells the credit man whether the customer *can* pay. Presumably, he has a late financial statement showing assets and liabilities in detail. Possibly, he has on file two, or even more, such statements made up at different times. He will have considerable information through various

sources explaining the figures which appear in the statement. His task then is to analyze these figures. The figures will, of course, have been arranged to suit the standard file form. Samples of such arrangements are shown in the illustrations in this chapter.

The first one starts out with the three items: (1) cash, (2) bills receivable, and (3) accounts receivable. Space is left for the total to be taken of these three amounts, and to that total is added the raw material inventory and the product, merchandise, and supply inventories. This total forms the quick assets of the company. Slow assets then appear, namely, real estate, buildings and plant, space being left so that other assets, if there are any, may appear.

On the liability side, the amount of accounts payable and bills payable (separated into three sections to show where they are owed) are totaled, and there form what is known as the current liabilities. To this we add the total of bonds and mortgages and reserves. This total plus the proprietorship accounts, namely, capital, stock, and surplus, equals the total liabilities, which, of course, should balance the total assets.

The second illustration shows the form which was made up for analyzing railroad reports. These forms may be made up in almost any shape, depending on the particular kind of information which they are expected to emphasize.

Of course, we cannot take these figures at their face value without thorough investigation. Each item must be carefully scrutinized to determine whether it actually is what it represents itself to be. "Cash" should be cash only, either on hand or in the bank. The item should be sufficiently large to balance properly the statement as a whole, but if it is too large it shows that the manager is not alive to his opportunities. It is obviously foolish to

carry a large cash balance which earns only a nominal return, if any, when it could be turned into merchandise and made to earn a substantial profit. One rule that can be definitely laid down in the case of a small business is that cash should not be allowed to accumulate as long as there are unpaid debts on the books.

The "bills receivable" will not be large in most statements. It is still a custom, however, in some lines of business to accept notes in payment for merchandise. Where a large amount is involved, it should be carefully analyzed to determine what it is worth and what it is made up of. Often under this classification, we find paper that has been renewed several times. Often we find that the item "bills receivable" covers uncollectible items, or personal obligations of the officers of the company, or notes on unpaid stock subscriptions.

When the credit man is satisfied that his total is what it purports to be, he should examine "accounts receivable." This should be made up of good accounts only, which are within terms or nearly so. If the total volume of the yearly business of the company is shown, comparison should be made between the two items. If the sales do not vary greatly from month to month, the comparison will prove a reliable index as to the efficiency of the collection department. A concern with total yearly sales of \$12,000 and total accounts receivable of \$3,000 is often spoken of as being on a "3-months basis," since three months' business has not been collected for. If their accounts receivable had been \$2,000, they would be in better condition as far as collections go. In other words, in a normal retail business the accounts receivable should not aggregate more than two months' charges or one-sixth of the yearly sales.

This standard cannot be applied too vigorously in

certain sections of the country. In the cotton states, for example, it is customary for the country storekeeper to do an "advancing" business. He carries the small farmer from season to season, supplying him with merchandise and other necessities and taking as security a mortgage on the growing crop, and often on the real estate and livestock, of the farmer. In such cases a financial statement may show total sales and accounts receivable approximately equal. This is not dangerous, however, since it is anticipated and prices fixed accordingly.

Where this state of affairs is not anticipated, an extremely dangerous situation may result as indicated in the following example:

DENVER CLOTHES SHOP
Denver, Colorado

ASSETS

Inventory January 18, 1912

Stock	\$29,443.86	
Accounts	16,686.29	
Bills receivable	3,069.50	
Building & loan stock.....	2,545.20	
Fixtures	6,249.95	
Total	\$57,994.80	\$57,994.80

LIABILITIES

Merchandise indebtedness...	\$17,268.40	
Borrowed money.....	17,500.00	
Total	\$34,768.40	34,768.40
Equity	\$23,226.40	
Sales, 1911	82,000.00	
Credit sales	32,000.00	
Expense	20,000.00	

The foregoing balance sheet and statement of facts shows the serious condition that this merchant has permitted his business to assume, because of his excessive extensions of credit. His credit sales amount to \$32,000 a year or approximately \$2,700 a month. At the time this statement was made his accounts receivable showed the total charges of 7 months—the charges for 7 months without the payment of a dollar. Of course, there have been moneys paid on account each month. Hence, the length of time accounts have been running is much longer than 7 months.

In this line of business and taking into consideration the financial statement as offered, the accounts receivable should not exceed \$5,500 to \$6,000. If this were true, the owner of the Denver Clothes Shop would have over \$13,000 to reduce his indebtedness, which would confine the amount he owed largely to his borrowed money. As it is, the business is in a very precarious condition and is, by no means, entitled to credit.

If his outstanding accounts receivable were on a proper basis, he would owe not more than \$4,000 merchandise indebtedness, which he could pay in less than a month, but, as it is, it would take nearly 3 months to pay bills, which should have been paid in November and December, even assuming that he would be able to continue his borrowed money loans.

When we come to consider the two inventory items of "raw material" and "product, merchandise, and supplies," we find ourselves in a difficult situation. Do these two items, in reality, represent quick assets? What proportion of the totals consist of unsalable items? When the inventory was taken, were cost prices used or selling prices? It is well for the credit man to consider what this stock of raw material and product and supplies would

bring in the event of a forced sale. Too often the credit man has to make a heavy deduction from the face of such inventories.

For the moment, let us skip over the real estate and plant items and consider the liabilities. It is obvious that the liabilities will never be overstated. The one question we shall want to ask about the accounts payable is, "What proportion of them are past due?" This will afford an index to the customer's habits of payment. We want to know in a general way to whom bills payable are owing. This will tell us whether they are notes issued for the purpose of financing, or for notes given in payment of merchandise. If the total of bills payable is heavy, we should find out when payments must be made on the various items making it up.

There may be other items appearing among the current liabilities, such as pay roll, unpaid dividends, discounted bills receivable, etc. Where these appear they must be investigated.

We can now compare the quick assets with the liabilities, and it is on this comparison that the credit man relies most. The total of "cash" and the "bills and accounts receivable" are known as "liquid assets," and are inserted at the bottom of the sheet in the space shown. Then, under them, appears the total of the current liabilities. The difference is taken and, if the liquid assets are larger than current liabilities, the balance is inserted in black. If the current liabilities are larger than the liquid assets, the balance is shown in red, indicating a deficit. To this balance is added the total of the inventory accounts, and the final result, which is known as the "net quick assets," appears on the bottom line.

The figures showing the balance between the liquid assets and the current liabilities, and those showing the

net quick assets are of the greatest importance, since the trading condition of the firm is thereby shown. The ratio existing between these various items is indicative of the degree of promptness with which the customer can pay. Credit men have a rough rule that there should be \$2 of quick assets for every dollar of current liabilities. Also, the total of the liquid assets should be about sufficient to pay off the current liabilities. This is subject to modification, however, when some of the bills payable consist of long-time commercial paper.

Many credit men consider only the figures we have so far discussed and neglect almost entirely the fixed assets and the slow liabilities. This is because these fixed assets are not to be sold, and because their value cannot be definitely known. Furthermore, in the case of so many bankruptcies, it has been found that the real estate, buildings, plant, and other items have to be seriously depreciated. The credit man, therefore, feels a natural hesitancy in accepting any valuation placed on these assets by the customer. It is, of course, important to investigate whether a plant is being kept up-to-date, whether proper reserve for depreciation is being provided, and whether sufficient amounts are being expended for repairs and renewals.

In connection with the questions of bonds and mortgages, if the figure is a large one, the provisions of each mortgage should be investigated, and if the time of payment is in the near future, the customer may with perfect propriety be called upon to explain his arrangements for refinancing.

The "capital stock" and "surplus" measure the net worth of the concern. The figures representing these two items mean nothing unless the rest of the statement is true. If the assets must be scaled down, we must

scale down the net worth to the same extent. If liabilities are not shown in the statement that should be shown there, we must reduce our net worth accordingly. Therefore, it is only after having closely scrutinized all the elements going to make up the balance sheet that we can measure the net worth. It is advisable to note whether the surplus has been voted to remain a part of the business, or subject to disposal in the form of dividends. Inasmuch as the surplus measures to some extent the earning capacity of the company, it is often well to determine whether this surplus was actually formed by earnings, or whether it came on the books by appreciation of real estate or investments, or whether it is a surplus which was paid in by the stockholders.

ANALYSIS AND IMPORTANCE OF SALES AND EXPENSE

In retail credit particularly, it has been noted that too many merchants have an idea that profits come with increased sales, when, as a matter of fact, unless the business is properly organized and conducted, an increase in sales may be accompanied by an increase in losses.

Profits come from:

1. Efficient and economical administration of a business.
2. Concentrating purchases with a few good houses.
3. Buying often and wisely.
4. Turning the stock often, a fact that the average merchant does not often realize.

It may be a coincidence, but it is well worth noting, that the man who knows most about his business seldom fails—that the man who knows little about his business seldom succeeds.

The policy of concentrating purchases, buying often, and turning stock frequently means greater profits and

less debts. It means few creditors instead of many, and it means that a small stock of goods is always worth its cost, as contrasted with a large stock of shopworn goods that is always worth less than inventory. It means very few, if any, goods sold at a loss of profit. It means that every dollar is working and earning money for the proprietor, and not that the dollars invested in active, fresh merchandise are carrying the burden of unsalable goods. It means no worry in depressed times as against constant worry all the time. It means that the good, strong wholesale houses are really interested in the retailer's business and success—many small creditors are apt to be a menace rather than a help—and it means, finally, an opportunity of success instead of possibility of failure.

From the standpoint of a wholesaler selling to small retailers, let us look at the importance of turning stock frequently. The importance of analyzing sales and expense and how, in many instances, it is of even more importance than the analysis of assets and liabilities is shown in the following example:

Assume that two merchants, Anderson and Brown, are both in the same condition as to assets and liabilities, each having \$10,000 in assets and owing \$6,000. Each one has an equity in his own business of \$4,000, which is less than his debts. Each business, therefore, belongs, not to the proprietor, but to their creditors; hence, from a credit standpoint, each is a poor credit risk, the assets at fair valuation not being equal to the debts. They both buy on terms of three months.

If the credit man for the wholesale house should decline to extend credit to them both, he would be right in one case and wrong in the other, because he has not taken into consideration their respective sales and expenses.

SALES AND EXPENSES

Anderson has	\$10,000
Anderson owes	6,000

Equity	\$ 4,000
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Sales	\$18,000
Expenses	4,800
Profits	4,800

Net profits	0
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Receipts each month.....	\$ 1,500
Less month's expense.....	400

Net receipts each month.....	\$ 1,100
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He owes \$6,000, so that it takes him practically 6 months to pay his bills. He makes no money and is 3 months slow in paying his bills. Credit should be declined him.

Brown has	\$10,000
Brown owes	6,000

Equity	\$ 4,000
--------------	----------

Sales	\$36,000
Expenses	7,200
Profits (figuring on same per cent of profit as Anderson)	9,000

Net profits	\$ 1,800
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Receipts each month	\$ 3,000
Less month's expense.....	600

Net receipts each month.....	\$ 2,400
------------------------------	----------

Brown owes \$6,000, so that it takes him $21\frac{1}{2}$ months to pay his bills. He makes \$1,800 net profit each year and pays his bills before they are due. He is a good credit risk, and the credit man should not hesitate to grant him accommodations.

From the two foregoing examples, it is evident that no customer should be declined credit, based simply on a statement of assets and liabilities, when the activity and expenses of the business are really the determining factors.

To illustrate statements we have made regarding the turnover, or the ratio between average inventory and total cost of goods sold, the following balance sheet and statement of facts should be analyzed.

COWAN CLOTHING COMPANY

Birmingham, Tenn.

ASSETS

Merchandise	\$18,300	
Fixtures	1,700	
Good accounts	1,500	
Total	\$21,500	\$21,500

LIABILITIES

Indebtedness for Mdse. (\$3,500		
past due)	\$ 4,500	
Borrowed money, bank.....	2,000	
Other borrowed money.....	3,600	
Total	\$10,100	10,100

Equity	\$11,400	
Sales, 1911	\$25,000	
Expense	5,400	
Rent	150	
Personal withdrawals	100	
Clerk hire	125	

Analysis of the foregoing data shows that the yearly sales of \$25,000, which carried a profit in the neighborhood of \$6,500, leave cost of goods sold in one year \$18,500. The amount of the inventory shown on the balance sheet is equal to \$18,300; therefore, the stock is turned over only once. In making an analysis of this kind, it must be constantly borne in mind that an inventory is taken at the most convenient time, which naturally means at the time when the stock of goods is the lowest. Therefore, in this example, the *average* inventory would be much higher than \$18,300, probably \$22,000 or \$23,000. Thus, in reality, the Cowan Clothing Company does not turn its stock even once.

Now if this merchant turned his stock at least three times, which he should do, he would carry a stock of goods not over \$6,000 (as contrasted with the \$18,300), giving him \$12,000 to reduce indebtedness. In other words, he would be out of debt and have \$2,000 besides. As it is, the monthly receipts are approximately \$2,000. Subtract from this figure the monthly expense of \$450 and there is left \$1,550, which simply means that it will require the receipts of over 6 months to pay the debts.

Obviously this merchant's affairs are in bad shape and, unless he very quickly corrects his system of doing business, he will fail.

DETERMINING A CUSTOMER'S CREDIT

When the credit man has thus analyzed the situation from all viewpoints, he is in a position to decide definitely what the policy of his company will be towards the customer. It is in making this decision, which involves the assigning of terms and credit limits, that the credit man must exercise keenest judgment. He will balance the favorable factor with the unfavorable one, giving each due weight and consideration. He is in the position of a judge who has examined the evidence and is about to hand down a decision. He must be able to get away from the dry details of the reports and figures which are in front of him and to see the human beings who are behind

them, for it is his duty to forecast what these human beings are going to do in the future. He utilizes past history only as a basis for prophecy. He makes a survey of the situation from economic and legal standpoints. He examines the data for evidence of contingent liabilities which are not shown on the balance sheet, pictures to himself what misfortunes might happen to the company, and then re-examines his file to see how well the firm is protected against such calamities.

This final summing up of the various elements should be handled from these various points of view. This feature of credit work is so important that we can profitably spend a little time in discussing it.

STATISTICS OF FAILURES

After the credit man has examined the credit risk from the three fundamental standpoints, namely, character, ability, and capital, he should know just what importance to assign to each one. It is obvious that he will be greatly aided in this by a survey of statistics on the subject of failures. If he can know, for instance, that during a period of years approximately 10 per cent of the failures were due to fraud, and nearly 30 per cent of the failures were due to lack of capital, he has a definite measure by which to judge his information.

In this chapter we show a chart headed, "Causes for Failures in 1913-1914." The figures from which this graphical chart was made up were taken from the weekly magazine issued by the Bradstreet Company. Considering all the failures during the two years of 1913 and 1914 as 100 per cent, it indicates that various percentages of that number were due to lack of capital, incompetence,

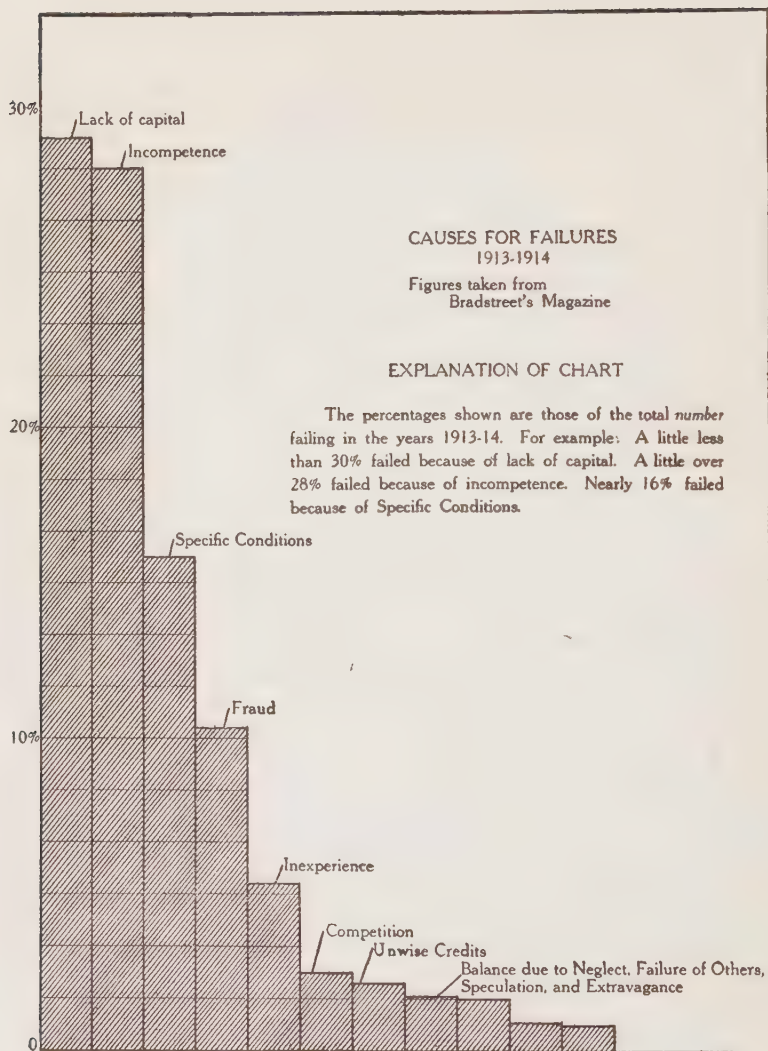


FIG. 12.—Causes for Failures

specific conditions, fraud, inexperience, competition, unwise credits, neglect, failure of others, speculation, and extravagance.

What conclusions can we draw from this exhibit? On the character side, we find that 10 per cent of the failures were due to fraud. In considering the capital factor, we find that 29 per cent of the failures were due to lack of capital. When we consider ability, we may include incompetence with about 28 per cent, inexperience with about 5 per cent, unwise credits with 2 per cent, and neglect, failure of others, speculation, and extravagance with 5 per cent, making a total for the ability factor of approximately 40 per cent.

Four men out of ten lacked ability where only one lacked honesty, and three lacked capital. This accounts for eight of the ten men. The other two failed either because of competition or because of specific conditions. A failure which was caused, for instance, by the great Dayton flood would be ascribed to specific conditions. If we can remember these figures approximately, we shall be greatly aided in passing on the credit risk, since, if we know that four out of every ten failures are caused by lack of ability, we are warned that this element must be closely looked into and that due importance must be laid upon it.

I am strongly inclined to believe that the statistics show too high a percentage for lack of capital. It is the opinion of many credit men that the commercial agency reporters are entirely too prone to ascribe failures to this cause. If a failing firm has a very small capital, the chances are that it will be reported as failing on account of lack of capital, not because of some other reason which may lie underneath.

ECONOMIC CONSIDERATIONS

The credit man must examine his conclusions from another viewpoint, that of economic conditions. Purchasers of merchandise may come from widely separated sections having different industries and divergent needs. It is obvious that a retail merchant in a one-crop agricultural state must reckon with conditions of sale and contingencies of collection quite different from those which confront a dealer depending on a "pay-roll" public in a manufacturing state. In the one case, money does not circulate freely until after the crop is sold, whereas, in the other case, the disbursement of weekly or monthly wages to operatives in large numbers insures a reasonable, uniform circulation of money the year round. Plainly the two buyers should not receive the same consideration at the hands of the credit man, for their purchases from the house will not tie up its capital for the same length of time.

The differences between a fruit-growing and a mining section, or a lumbering and a cattle-raising region exhibit a similar diversity. Cities and towns likewise have their individual complexion according as they are inland or situated on the coast, or have as summer and health resorts a fluctuating transient population, or possess as railroad centers and distributing points a regular volume of traffic calling for no shifts of population and no variations in trade.

The credit man should not only know the particular needs of each buyer's public, but he must also know whether they are met by the selection of goods. A profusion of silks for mining towns, as well as an excess of overalls for health resorts, could mean only hopeless ignorance or contemplated fraud.

Furthermore, the amount of the purchase should comport with the season of the year. In some sections the cash sales are light until the crops are gathered and sold, for which reason the dealers must wait a year for collections. On the other hand, there are towns and sections where little variation in the circulation of money is caused by the season of the year, since the buying public is composed of skilled mechanics, artisans, and other operatives, office and other employees, etc., all of whom draw regular weekly or monthly wages, and are thus enabled to buy independently of the season. A dealer catering to the requirements of such patrons would need a far different stock from that of a retailer in a section where slow collections prevail, and he would handle choicer and more quickly moving goods.

The recent establishment of Federal Reserve Banks authorized to make loans on farm lands has an obvious bearing on the questions of credit, for the farmer is thereby enabled to raise money regardless of the season and the sale of his products, which greatly improves the chances of the retail merchant for early collections.

LEGAL CONSIDERATIONS

The credit man should also examine his evidence from the legal standpoint. The man who ratifies sales on time for large distributing houses must know accurately wherein the laws of each state affect collectibility of accounts made by its citizens. He need not be a professionally trained lawyer, but he should know the statutes on exemptions and collections in each state well enough to estimate the risk on conceding credit to retail merchants there. No great degree of uniformity is found in the laws of the different states, so that what would be safe in one instance by reason of rigorous statutes would

be foolhardy in another because of the liberal exemptions behind which the dishonest dealer could take refuge if he chose.

In addition to the foregoing, it is necessary to know the essential features of the laws bearing on partnerships and corporations, mortgages, judgments, executions, transfer, liens, and inheritances in each state where the house has debtors. This knowledge will not come from systematically studying the laws of each state so well as from accumulating and filing all the facts brought out by each situation as it presents itself. They will thus be available when a similar case from that state is to be considered. Printed summaries of the laws of each state are procurable in book form, and they are even necessary; but the credit man obtains from this source no such guidance as is afforded by his own records of sales and dealings with buyers. In time these records become so varied and complete that they cover the needs of every imaginable case furnishing a practical plan of procedure.

PROMPTNESS OF PAYMENTS

Another point that the credit man must take into consideration is that of promptness. The capital of the house is tied up as long as the accounts remain unpaid, for which reason promptness in paying for the goods counts almost as much as the profit from their sale, especially in lines admitting of quick turnovers. It is easy to calculate the average time for outstanding indebtedness, and this supplies the means of computing the actual loss in the form of interest on the money involved. For example, \$2,200 tied up for 30 days represents the same loss in interest as \$66,000 for one day, and \$3,600 withheld for 90 days shows the equivalent

interest of \$324,000 for one day. The results if \$1,700 remains unpaid for four months (120 days) and \$500 for 60 days are also exhibited along with the first-named in the following computation:

The interest on \$3,600 for 90 days equals that on \$324,000 for one day	
The interest on 2,200 for 30 days equals that on 66,000 for one day	
The interest on 1,700 for 120 days equals that on 204,000 for one day	
The interest on 500 for 60 days equals that on 30,000 for one day	
Total	\$8,000
	Total \$624,000

The average time for the \$8,000 appears on dividing \$624,000 by this sum. This equals 78 days which is the total of the four accounts averaged. The loss in interest is shown as follows:

At 6% the interest on \$8,000 for 60 days is	\$80.00
At 6% the interest on 8,000 for 6 days is	8.00
At 6% the interest on 8,000 for 12 days is	16.00
	<u>78</u>
	<u>\$104.00</u>

An item of \$104 would be insensible in a thriving business, but relatively it is a considerable one, for only four accounts aggregating \$8,000 would occasion this loss. If a hundred times as much money were similarly tied up throughout the year, the interest annually would be something like \$50,000, a sum larger than any house can afford to sacrifice through misplaced confidence as to its customers' promptness.

CREDIT CARDS

When the credit man has finally reached his decision as to the proper policy which should be followed, he records this decision in permanent form, presumably on some kind of credit card. The credit card will be treated more at length in the next chapter. On this card, he will probably indicate a credit limit in excess of which the account is not to go.

These credit limits are sometimes dangerous things to have outstanding. Salesmen may solicit and obtain orders based on old terms and credit limits, and unless the credit man insists on personally approving every order before it is placed, the material may be shipped without his knowledge in spite of the fact that a radical change for the worse in the customer's affairs may have occurred. Neither can it be said that the confidence which the house places in the buyer admits of rigorously accurate calculation. For example, a man may be prompt for several years, and thus prove himself deserving of a line of credit of \$1,000. But, if a drought of exceptional length burns up the crops in his section, his collections will be poor and his sales contracted so that he cannot meet his obligations to the house as promptly as before. It is plain that business prudence prescribes a reduction of the line of credit hitherto allowed him.

The same result may follow an increase in competition, especially if this proceeds from rivals possessing larger capital, better locations, and a more attractive display of goods. A shift in trade channels due to building additional railroads and starting new towns may so seriously damage the paying power of a retail merchant that he must be classed as slow or even as wholly undesirable, and this change may supervene in less than one year, or in one season. It then becomes necessary to restrict, or cut off altogether, a credit that was amply justified by prior conditions.

TEST QUESTIONS

1. What do you understand by "terms of sale"?
2. Why is the ultimate consumer the one who finally determines the time allowed on the middleman's purchases?

3. Explain the two credit features involved in purchase of goods for resale and for permanent investment.
4. (a) How does the credit man judge honesty?
(b) How does the credit man judge ability?
5. What do failure statistics show about causes for failures?

CHAPTER VI

AN ILLUSTRATION OF ACTUAL PROCEDURE

This subject of credit administration will probably be clearer to the reader if we trace a typical transaction through the various credit department records. In this connection, a word of caution is necessary. We have carefully avoided a detailed discussion of actual credit department methods and illustrations of forms used, because of the ever-present danger that they may be considered ends in themselves.

This, of course, is not true, since we must have certain machinery to attain certain results, and since the scheme of procedure depends entirely on what results are required. The forms and exhibits, therefore, which we show in the succeeding pages should be studied with the idea ever in mind of the ends that they serve, and the reader must not be misled into thinking that they can be bodily transferred to his own business. The routine that would be effective in the credit department of a steel mill would be utterly inefficient in a large wholesale house selling small retailers, even though they both did a large volume of business, because the former would have a few very large customers while the latter would have a great many small customers. The bankruptcy of but one customer would tie up an enormous amount of the Steel Company's money, while in the case of the

wholesaler the "law of average" affords protection. In certain industries, therefore, the credit department is instructed not to spare expense in making investigations—in others, the credit manager would be open to serious criticism if his cost of procuring information was high.

Coming back to that first simple credit proposition illustrated in our beginning chapter, let us assume that the Smith mentioned therein is the Smith Coal Company, of Chicago, Ill., doing a large volume of business with retailers in the northern part of the state, and that John Brown, who has formerly been working in Madison, Ill., for the firm of Thompson Brothers, has accumulated a little capital and intends to go into the retail coal business on his own account. He plans to locate in one of the suburbs of Chicago.

THE INQUIRY

The Smith Coal Company, owing to the volume of its business, has a well-equipped, up-to-date credit department composed of a credit manager, an assistant credit man, a file clerk, and a stenographer. On the morning of March 10, 1915, the credit man receives, through the sales department, John Brown's letter asking for prices on coal. Such a letter as this is known as an "inquiry." (See Figure 13.) The sales department should always send letters of this kind to the credit department in order that a credit investigation may be started. The credit manager will then be prepared to assign terms promptly should an order be received from the inquirer.

CHICAGO, ILLINOIS
October 20, 1915

*Smith Coal Company,
Chicago, Illinois.*

Gentlemen:

Please quote me your lowest prices on high-grade domestic coal for prompt delivery.

I am planning to open a retail yard some time this month. I shall be able to handle one car at once, as I have a few orders on hand. I shall also stock some coal for the fall trade a little later, and would like to have your April and May prices for this purpose.

I shall expect your regular terms of 30 days on the first car, and wish to know whether you give special dating on coal for stocking purposes?

Since I am just starting in this business and am not known to your credit man, I submit the following references:

American Exchange Bank, Chicago

City National Bank, Chicago

Thompson Brothers, Madison, Illinois

Awaiting your early reply, I am

Yours truly,

JOHN BROWN

JB/sg

FIG. 13.—A Customer's Inquiry

This inquiry from John Brown, together with numerous other inquiries and orders, is laid on the credit man's desk. The credit man rapidly sorts the orders and inquiries into two piles. The first pile contains all papers which he is willing to approve at once. Most of them will be from regular customers of the Smith Coal Company, with whose standing the credit man is familiar. These he approves and returns to the sales department promptly, so that the orders may be entered and the letters of inquiry answered without delay.

The other pile of papers which come from people with whom he is not familiar, he passes to the file clerk, requesting him to get the credit files. Along with them goes the letter from John Brown. In a short time, the file clerk returns all the papers, together with a number of credit files which contain classified information bearing on the credit responsibility of the various customers. The credit man examines these credit files, looks up his other sources of information, consults past records, and either approves or disapproves most of the orders and inquiries which he has left. These approved papers are also sent back to the sales department. There is then left only those inquiries and orders for which there are no credit files. John Brown's letter is one of them. We shall now follow the course of this letter, it being understood that all of the other papers are following a somewhat similar course.

THE INQUIRY CARD

First the credit man makes out what is known as an "inquiry card" (see Figure 14), which is printed on yellow paper. At this time he merely puts in the name, address, material, and date, and crosses out the word "order," showing that this card represents an inquiry.

He then takes the inquiry card to the commercial agency rating books. You will note that a space is provided on the left-hand side under "ratings" for the insertion of the figures as given by the rating books. In this case, we have seen that Brown is just starting in business and, therefore, is not rated; so we write the word "none" after the letters "B" and "D." However, supposing that Bradstreet had offered a rating of \$5,000 to \$10,000,

Date	<u>3/10/15</u>	Name	<u>John Brown</u>	
		Address	<u>Chicago, Illinois.</u>	
Ratings		Material	<u>One Car Coal</u>	
✓ B- <u>none</u> -	(Inquiry)	(Order)	<u>prompt delivery</u>	
✓ D- <u>1</u> -		Terms	<u>to be assigned</u>	
(Stenographer: Write these references)				
<u>Am. Exch. Bank</u>	<u>Chicago</u>	<u>Illinois</u>		
<u>City Nat'l</u>	<u>"</u>	<u>"</u>	<u>"</u>	
<u>Thompson Bros.</u>	<u>Madison</u>	<u>"</u>		

FIG. 14.—Inquiry Card (Yellow)

first-grade credit, we should have to put the number 5 immediately after the letter "B" and the number 10 in the next open space following the oblique line, and the number 1 after the dash. As we have seen, however, this customer was not rated and the credit man, therefore, takes the card back to his desk to decide what action should be taken.

He decides that in view of the circumstances, it will be satisfactory to write the customer direct for information.

SMITH COAL COMPANY

CHICAGO, ILLINOIS

October 21, 1915

Mr. John Brown,
Chicago, Illinois.

Dear Sir:

Your letter of inquiry dated March 9 has been referred to me by our sales manager for credit approval. We have instituted our regular credit investigation, and have written the references that you were good enough to give us.

We note that you have orders on hand for domestic fuel and assume, therefore, that you will want rush shipment. This being the case, you will probably desire to send us your check in advance or to let us have the guarantee of some responsible individual or institution covering the first order.

If you desire credit accommodation on this one car, it will greatly hasten our investigation if you will favor us with a statement showing your financial condition in detail. Neither of the commercial agencies gives you a rating, which means that they carry no report on file. It will probably take them some little time to issue a report, and this delay can be eliminated if we can obtain credit information direct from you.

For many years we have been accustomed to request financial statements direct from our customers, since we believe that the more we know of their affairs the better we are equipped to serve them. We, ourselves, give complete figures to Dun and Bradstreet twice each year.

For your possible convenience we inclose one of our regular blank statement forms, which may be filled in and returned to us.

Regarding special dating on summer coal, the best terms that we can possibly grant are 30 days net from date of shipment. However, it is not unusual for our collection department to accept notes, bearing interest at 6 per cent, in such cases. This feature can be arranged later.

May we not expect your early reply?

Yours truly,

WJ/sg

Stamp inclosed.

- WILLIAM JONES

Credit Manager

He dictates to the stenographer a letter such as we have shown in Figure 15. When it is written, it is handed to the credit man for signature. He signs it, and attaches to it a blank statement form, which is to be filled in by Mr. Brown. He instructs the stenographer to inclose a stamped return envelope and to mail the letter.

He must then decide what kind of investigation to make. For the present, it will be sufficient for him to obtain agency reports from both Dun and Bradstreet, and to write letters of inquiry to the three references which Brown named in the statement. He puts check marks in front of the letters "B" and "D," signifying that a Bradstreet report and a Dun report are both wanted. On the lower portion of the card, he writes in the name of the two banks and the other reference. He then takes Mr. Brown's inquiry and stamps it with his credit stamp quoting "terms are to be assigned later after investigation." The inquiry is then returned to the sales department. The words "to be assigned" are written after "terms" on the inquiry card, and the card is then turned over to the file clerk.

THE CREDIT FILE

This card, an order on the file clerk and the stenographer to do certain things, instructs the file clerk by its color (yellow) to make up a new credit file. The check marks under the word "ratings" show him what agency reports are wanted. The file clerk takes this inquiry card, and from the information contained on it makes up a revision card. (See Figure 16.) On the left-hand side under the word "asked" and opposite the letters "B" and "D," he inserts the date. From his records, he determines what the next available file number is.

He finds they have at that time a total of 3,504 credit files. He makes out a new credit file-jacket, which simply consists of one piece of heavy paper about 19x11 $\frac{3}{4}$ inches folded in the middle forming a pocket into which may be put reports, letters, etc. He stamps the new file number on it, namely, 3505, and puts this empty file-jacket in one of his desk drawers reserved for the purpose. He writes

Jan.			Feb.			Mar.			Apr.			May.			Jun.			Jul.			Aug.			Sep.			Oct.			Nov.			Dec.		
Name <u>John Brown</u>																																			
Address <u>Chicago, Illinois</u>																																			
Asked		Rec'd		Remarks		Asked		Rec'd		Remarks		Asked		Rec'd		Remarks		Asked		Rec'd		Remarks		Asked		Rec'd		Remarks							
B <u>3/10/15</u>						B						B						B						B											
D <u>3/10/15</u>						D						D						D						D											
B						B						B						B						B											
D						D						D						D						D											
B						B						B						B						B											
D						D						D						D						D											

FIG. 16.—Revision Card

the new number on the inquiry card and on the revision card. He then writes out two commercial agency tickets; one for Bradstreets, and one for Dun. These tickets are simply printed requests for late reports. They are either mailed or delivered to the agencies at the close of the day. He then files the revision card alphabetically in a cabinet which is marked "active" and passes the inquiry card on to the stenographer.

THE INDEX CARD

The inquiry card, on account of its color and the instructions written on its face, acts as a request to the stenographer to make out an index card, which is merely a blank card 3x5 inches showing merely "John Brown,

Name <u>Brown, John</u>		File No. <u>3505</u>						
Address <u>Chicago, Illinois</u>								
Yr	1st	2nd	3rd	4th	Terms	Date	Limit	Remarks
1915	B	not					\$	Credit risk
	D	not			30 days	3/24/15	300.00	moderate But little Capital
1916	B						\$	
	D							
1917	B						\$	
	D							
1918	B						\$	
	D							

FIG. 17.—Credit Card

This card is permanently filed geographically. By referring to the proper state and city it can be found arranged alphabetically with others belonging to the same city.

Chicago, Ill., No. 3505," and a credit card. (See Figure 17.) She fills in on the credit card, the name and address of the customer, file number, and agency ratings. She then writes a standard letter of inquiry to each of the three references which reads as follows:

March 10, 1915

American Exchange Bank,
Chicago, Ill.

Gentlemen:

In connection with our present credit file revision, we shall be glad to know your opinion of the character, habits, and

business ability of Mr. John Brown, Chicago, Ill., formerly of Madison, Ill.

This inquiry is in the regular course of business, and should not be interpreted as reflecting in any way on Mr. Brown.

We shall be delighted to serve you in turn when the occasion arises.

Yours very truly,

SMITH COAL COMPANY

With each of these letters she incloses a stamped return envelope. She then returns the original inquiry card and the two cards she has just made out, namely, the index card and the credit card, to the file clerk. The file clerk puts the credit card in file No. 3505 which, you will remember, he has laid aside in his desk drawer. He files the index card in the index card cabinet. This cabinet contains one card for every credit file. The cards are filed alphabetically, this one being placed under the "B's." If we ever have occasion to want Mr. Brown's file, we look in this index card cabinet for the card bearing his name and his file number.

All files are permanently kept in numerical order, starting with No. 1 and ending with the highest number. These index cards after once being put in the cabinet are never supposed to be removed, since if they should be lost considerable embarrassment might result when a file was desired. The inquiry card itself is inserted in the empty file-jacket No. 3505.

HANDLING INFORMATION

We now have to wait until the information starts to come in. Probably we shall hear first from the three references. Their letters will contain more or less important information regarding Mr. Brown. They will be acknowledged and put into file No. 3505. We shall

To Smith Coal Company, Chicago, Illinois: For the purpose of obtaining credit for goods or for any extension granted on account, the following is given you as a true statement of assets and liabilities and general financial condition as of March 1 1915

ASSETS		LIABILITIES	
Cash on Hand and in Bank	\$ <u>125.⁰⁰</u>	Accounts Payable	\$ <u>54.⁰⁰</u>
Notes Receivable	\$ <u>none</u>	Notes Payable (mdse.)	\$ <u>none</u>
Accounts Receivable	\$ <u>1.518³¹</u>	" " (bank)	\$ <u>250.⁰⁰</u>
Merchandise	\$ <u>none</u>	" " (others)	\$ <u>none</u>
Real Estate	\$ <u>6.000.⁰⁰</u>	Mortgages (chattel)	\$ <u>none</u>
Plant	\$ <u>none</u>	" (real estate)	\$ <u>3.000.⁰⁰</u>
Other Assets (in detail)		Other Liabilities	\$ _____
<u>Horses and wagons</u>	\$ <u>800.⁰⁰</u>		\$ _____
<u>automobiles</u>	\$ <u>450.⁰⁰</u>		\$ _____
	\$ _____		\$ _____
		Net Worth	\$ <u>5.589³¹</u>
TOTAL	\$ <u>8.893³¹</u>	TOTAL	\$ <u>8.893³¹</u>

What kind of business do you conduct? Just starting coal yard

Insurance on merchandise? none On buildings and plant? none

Sales last year? none Expenses last year? none

What amount of your indebtedness is secured and how? mortgage is secured by real estate

Have you any contingent liabilities not mentioned in above statement and if so what are they? endorser on note \$500.⁰⁰

Have you any judgments, judgment notes, or other liens against you? no

Have you any suits pending? no

With whom do you bank? American Exchange Bank, Chicago

What portion of your real estate is homestead? \$3000.⁰⁰

References Am. Exchange Bank, City Nat'l Bank Chicago
Thompson Bros - Madison, Illinois

The foregoing statement, both printed and written, has been carefully read and considered by the undersigned, who declares it to be a full and correct rendering of his firm's financial condition as of the date shown. The answer to all questions not answered hereon in writing is "No."

FIRM'S SIGNATURE Brown's Coal Yard
By John Brown
A member of the firm.

FIG. 18.—Statement Blank Filled In

receive a letter from Mr. Brown inclosing the statement blank properly filled in. (See Figure 18.) This will be acknowledged by a short note of thanks, and the letter and statement will be inserted into file No. 3505. Then the commercial agency reports will probably come in. As each is received, it should be checked on the revision card which, as you will remember, we filed in a cabinet

May					
Name		<i>John Brown</i>			
Address		<i>Chicago, Illinois</i>			
Asked	Rec'd	Remarks	Asked	Rec'd	Remarks
B <i>3/10/15</i>	<i>3/19</i>		B		
D <i>3/10/15</i>	<i>3/17</i>		D		
B			B		
D			D		
B			B		
D			D		

FIG. 19.—Revision Card

After reports have been received, checked on card, and all tabs removed except the one indicating the next revision date.

marked "active." Assume, for instance, that the Dun report came in on March 17, and the Bradstreet report on March 19. The date each one was received will be entered under the heading "received" opposite the letters "B" and "D" respectively.

Then all the tabs at the top of the card must be clipped off, except one. This one will show in what

month the file should be revised. Revision should normally come once a year. We decide to revise this particular file in May of next year, hence we clip off all the tabs except the one for May. The card is then "satisfied," and we may file it permanently in a cabinet marked "inactive." The "active" cabinet contains nothing but cards which show figures entered under the asked column without corresponding entries under the received column.

The file clerk then puts the two agency reports in file-jacket No. 3505 and from the inquiry card which is contained therein, he sees that no more information is to be expected. The file is, therefore, ready to be written up. He then takes the inquiry card out of the file and puts it into the inquiry card cabinet where it is filed along with many others like it in alphabetical order. These inquiry cards are saved as a matter of record, although most of them can be destroyed when they get a year or so old. The file containing the credit card, the two bank letters, the letter from Thompson Brothers, the two agency reports, and the letter and statement from Mr. Brown is passed to the assistant credit man for "write up."

The first thing which the assistant does is to reclassify the financial statement on a standard statement blank. (See Figure 20.) He then dictates (possibly to a commercial phonograph) a summary of the information so far developed. First, he consolidates all the information bearing on Brown's character; second, that bearing on his ability; and third, that bearing on his capital. In this summary, he includes information which was received through the commercial agencies, references, and the customer himself. This summary, which he writes up, is meaty and full of facts, and, since it contains only the most important data, can be made very short. The

ASSETS		2/1/15									
CASH										1	25
BILLS RECEIVABLE											
ACCOUNTS RECEIVABLE										1	58
										1	643
RAW MATERIAL											
PRODUCT, MDSE. AND SUPPLIES											
QUICK ASSETS										1	643
REAL ESTATE AND BUILDINGS										6	000
PLANT											
OTHER ASSETS										1	250
TOTAL ASSETS										8	893
LIABILITIES											
ACCOUNTS PAYABLE											54
BILLS PAYABLE, BANK										2	50
" " STOCKHOLDERS											
" " OTHERS											
CURRENT LIABILITIES										3	04
BONDS AND MORTGAGES										3	000
LIAB. EXCL. CAPITAL STOCK										3	304
CAPITAL STOCK											
SURPLUS - <i>net worth</i>										5	589
TOTAL LIABILITIES										8	893
CASH BILLS AND ACCTS. RECEIVABLE										1	643
CURRENT LIABILITIES										3	04
BALANCE										1	339
INVENTORY ACCOUNTS											
NET QUICK ASSETS										1	339

Fig. 20.—Reclassified Information on Standard

file and the phonograph cylinder then go to the stenographer, who writes up on the summary sheet the matter which the assistant credit man has dictated. The summary sheet is a form like Figure 20, except that the face has four columns, allowing four financial statements of different dates to be shown. The reverse side is blank, affording space for the dictated material to be written. When the statement figures have been typewritten and the "summary" dictation recorded, the file is returned to the assistant credit man, who checks the figures in order to be sure that there has been no error made in transcription. He then passes the file to the credit man for approval of terms.

You should note that this routine of classification and transcription is very seldom necessary, except under certain circumstances where the customer's financial standing is poor, his purchases large, and the volume of credit information very great. Under these conditions, and only these, is it advisable to spend much time or money in reclassifying credit information such as has been described. When these conditions do exist, it is real economy to "boil down" the data, so that a large mass of letters, reports, and other papers will not have to be examined every time the credit man has occasion to consult the file.

ASSIGNING TERMS

The credit man studies the risk from all points of view along the lines discussed in our last chapter. He may feel the need of additional information, in which case he lays the file aside until he can obtain it. He carefully analyzes the financial statement. When he has finally made his sound and well considered judgment, he records the result of that judgment on the credit card

which, you will remember, has been accompanying the file. You will note in Figure 17 how he records the information. He has assigned terms of "30 days" and a credit limit of \$300. The credit file is then given to the file clerk, who puts it in its proper numerical position in the credit file cabinet. The credit card is filed in the credit card cabinet, which is arranged alphabetically according to states and cities.

Now when the order comes in, the credit man simply by glancing at the credit card can tell what terms to approve. If the order should be a large one amounting to more than the \$300 limit which he has assigned, he may have need to consult the credit file again, otherwise not.

In this connection, the reader should note that in many lines of business, terms of sale have been standardized and are the same to all customers who are entitled to credit. In others, terms vary with the customer, his location, the character of his business, his financial standing, the character of his own customers, and the season of the year. A wholesaler selling a definite trade cannot afford to discriminate between his customers, while a manufacturer dealing with many widely varying kinds of business, in widely separated parts of the United States and in foreign countries and confronted by differing trade customs and seasons, may rightly have different terms although, even in this extreme case, he must be careful not to deal unfairly with his trade.

KEEPING INFORMATION ALIVE

Next year on the first of May, the credit man will carefully look through that "inactive" section of the revision cards. He will take from the file all those cards which bear a tab marked May. Then he and the sales manager

will confer as to the probable chances of doing business with each of the customers whose names are shown by these cards. They will decide that from some of them no business can be expected. These cards are refiled in the "inactive" section. The balance of the cards represent customers whose credit files should be kept up to date. The file clerk will be given these cards, and will be instructed to ask for new agency reports. At the same time, the stenographer may be requested to write letters of inquiry to banks in connection with some of the names. It may be decided to obtain information through any of a number of sources. The credit files for these names are set aside, and the dates that the agency reports were requested are posted to the same revision cards that we discussed before. John Brown's card will have the dates posted on the two lines below the dates already shown. The cards themselves are filed in the "active" revision card cabinet and the procedure is in every respect the same from this point on.

When we come to put the terms on our credit card, we do it in the space marked 1916. We shall also insert agency ratings on this credit card. The four columns headed "1st," "2nd," "3rd," and "4th," show from which of the four yearly rating books the rating was taken. If the rating is taken from the book which is sent out to subscribers at the beginning of the second quarter of the year, the rating will be written in the second column, etc. It can readily be seen what a valuable record this credit card becomes after a few years. It shows a continuous history of the business dealings with the customer. When one credit card is entirely used up a new one can be made out and the first filed permanently in the credit file-jacket.

FUNCTIONS OF THE INQUIRY CARD

We can go back for a moment and discuss another phase of our subject which we neglected in the early part of this chapter. The inquiry card has two functions. One function is that of serving as an order to the file clerk to make out a new credit file and to issue certain agency tickets, and as an order to the stenographer to write certain letters. The other function is that of a record of the inquiry. In order to separate properly these various functions, we may have the same form printed on two different cards, one card to be tinted yellow and the other card to be left white. If an inquiry or an order is recorded on a yellow card, the file clerk is thereby instructed to make up a new credit file. If the order or inquiry is recorded on a white card, no new credit file is to be made up. Agency reports and banks may be checked on these white cards. The file clerk and the stenographer should then follow the same procedure as in the case of a yellow card, except that no new credit file, index card, credit card, or revision card will be made up. One of these white cards should be made out for every inquiry that is received, serving merely as a record of the terms actually quoted. If an order then results, a glance at the inquiry card will keep the credit man from quoting different terms on the inquiry.

SUMMARY OF CREDIT-GRANTING PROCEDURE

This brief sketch of a credit department system, if properly analyzed, shows what results ought to be expected from any adequate credit system. There is a separate and distinct *credit file* for each customer, containing in an orderly fashion all the information bearing on that customer's responsibility. There is a *credit card*

for each customer, filed alphabetically according to geographical divisions, which shows, for ready reference, the terms of sale and the credit limit. The active section of the *revision card* cabinet shows all the outstanding unanswered agency tickets, and it also shows all the files either undergoing revision or being made up for the first time. The files themselves are kept in numerical order, and are located by means of an alphabetically classified index.

In this chapter, we have only indicated the procedure in the case of a simple transaction. The many sources of information previously discussed have not been considered. The important thing to note is that the credit department handles information from practically all these sources in exactly the same way. It is seldom that it has to make an investigation in more than a few quarters. Usually the agency report is sufficient to tell him whether the customer is good for what he wishes to buy. If not, a few minutes' conversation with the salesman, or a letter or two from banks, or references make the decision a comparatively easy one. Rarely where goodly amounts of money are involved and the credit risk is dubious must we investigate exhaustively. It is perfectly obvious that a great degree of difference must exist in the thoroughness of an investigation of a railroad in buying a million dollars' worth of rails and of a private individual in buying a fifty-cent necktie. Our aim is to show the principles involved in classifying and recording information, and not to discuss conditions obtaining in special lines of business.

TEST QUESTIONS

1. How should terms of sale be recorded?
2. How may a new credit investigation be made automatically at the right time?
3. Why should terms of sale be standardized in the ordinary wholesale house?
4. What are the essential features of any credit department, regardless of size, location, or kind of customers?

CHAPTER VII

CONCLUSIONS

In the six previous chapters, we have discussed with some detail the theory and practice of credit, with special emphasis upon mercantile credit. We are in a position to treat the subject in such a way as to round it out fully. We have seen that, in a general way, credit is a temporary substitute for money involving the element of trust, that before extending credit a grantor wishes to be satisfied regarding the character and ability of the applicant, and, finally, that the element of capital is of importance as insurance against the unexpected. The business of the credit man is to study these various factors, and to approve or refuse credit to his company's customer.

In order to do this effectively, he must be a combination of lawyer, economist, banker, and diplomat. He must know something of psychology, accounting, salesmanship, and auditing. In order that he may know the general trend of business and financial conditions, he must closely watch the various trade barometers, such as crop reports, bank clearings, commercial paper rates, commodity prices, new building records, railroad earnings, and stock and bond prices, inasmuch as experience shows that commercial prosperity and depression is a matter of cycles. These cycles may cover a period of years, but the elements composing them are always the same. During prosperous times, credit becomes expanded, men grow careless, stocks of merchandise

increase above prudent amounts, men engage in outside enterprises, business is so good that additions to factories and stores are made—expansion is in the air. Everyone is overextended. Then a reaction sets in, confidence gives way to distrust. Everyone owes, and is owed by, someone else. Repayment of debts is demanded, but there is no money; the banks won't lend, rather they are calling the loans previously made.

Panic results.

Then a long period of lifeless inactivity until thorough liquidation has taken place, after which comes a gradual improvement until actual prosperity is again attained. This is the invariable cycle which has been repeated over and over again in this country. As no one who does not owe can become a bankrupt, credit is the cause of bankruptcy, and also the cause of extravagance and speculation.

A careful study of these conditions will enable the credit man to draw conclusions which will determine his broad credit policies. He will spend much time in analyzing and studying his customers, by groups (1) according to the products which they use, (2) according to the territory in which they are situated, and (3) according to the lines of business in which they are engaged. He will keep records of past-due accounts, and from these records he will seek to determine the causes which make for slowness. He will be in a perpetual state of inquiry, always endeavoring to find out the "why" and "how" of things, tracing causes and effects in the great world of trade.

The description of the credit man's duties and qualifications could not include more than the important essentials—the essentials that stand as the fixed quality in the problem of his professional make-up. The facts of per-

sonality are too numerous for their interplay to be reckoned, too varied for their effects to be gauged, but it is certain that the credit man accomplishes more by means of tact than through the use of bluntness. In fact, he employs courtesy even in situations exciting ire. Polished, deferential, and firm, he maintains an even poise in all the trying interviews where he must say "no" to buyers while couching his refusal in terms that do not offend. It is a proof of remarkable tact if a credit man can withhold goods from one whom he maintains as a friend.

With tactfulness, courtesy, and good breeding, is associated another quality: the capacity to feel human sympathy. It is the basis of all confidence, the foundation of all esteem, and its finest expression is conveyed by genial interest in the affairs of one's fellow-men; hence, the credit man is often made the confidant and adviser of those purchasing on time from the house, and to his regular duties is added that of reviving enthusiasm and inspiring confidence. This he does sympathetically and consistently, leaving on the minds of his customers the impression that they must justify his solicitude and show themselves worthy of his esteem.

Standards for measuring the credit man's success were proposed. Every success has its measure, and in his case negative indications are as conclusive as positive ones. For example, the amount of annual losses sustained through bad accounts is significant. It would be a questionable success if an extension in the volume of business done were attended by a disproportionate increase in the percentage of loss.

An interesting sidelight is afforded by the amount of business declined, and shown to deserve this ruling by reason of subsequent failure as reported by mercantile

agencies. Each instance of this kind should be afterwards studied minutely in the light of all the facts that influenced the credit man's decision at the time. It thus becomes an instructive precedent available when similar cases present themselves. A succession of such instances will lead to systematized knowledge.

As a final conclusion to this discussion of the credit man's functions and qualifications, it may be well to emphasize that the viewpoint has been that of practical utility. The considerations have been mainly those within the scope of every-day experience. Not every reader of a cookbook will become a culinary expert, but all adepts in cookery must have at hand the information which the cookbook contains. So, too, while the perusal of these pages will not alone qualify a man to become an expert, every efficient credit man must possess the information herein conveyed.

TEST QUESTIONS

1. What are the significant points in the cycle of trade depression and prosperity?
2. Along what three lines should a credit man study his customers?
3. What are the two principal standards for measuring the credit man's success?
4. How may the credit man be constructive rather than destructive?

COLLECTIONS

CHAPTER I

COLLECTIONS AND THE COLLECTOR

NATURE OF COLLECTIONS

Collections, in the broad general use of the term, covers everything that pertains to the supervision, checking, and following of accounts, notes, or assets receivable of every nature until the amounts which they involve are realized. To a degree commensurate with the care exercised in the extension of credit or with the gauging of risks to the profitableness of the business, it is practicable and expedient to narrow consideration and application of the subject to such items only as require special treatment and attention. All accounts, all items, of course, must be kept under observation; but the larger number of retail and wholesale accounts, probably never under 50 per cent and frequently as high as 90 per cent, are paid promptly at maturity if not before. With such charge items, casual attention in connection with the accounting is all that is necessary.

The real problems of the collector of commercial accounts, therefore, begin with the delinquency of the debtor, not with the inception of a credit. Such matters as billing to prompt-paying customers and crediting their accounts when the payments are made, are simple matters of office routine. The collection manager should in-

stal an efficient system for handling these items, to be sure, but they do not reach the heart of his problems.

If we narrow the material for consideration, we may consistently define "collections" as the practice and routine of following delinquent accounts, or other receivables, to final liquidation.

THE COLLECTOR'S TASK

The procedure on such delinquent accounts will vary from the initial, simple, polite reminder, either by letter or personal presentation, to the elaborate, discursive, analytic, constructive letter or interview. All these steps and devices must be considered.

The time consumed, the expense incurred, as well as the ultimate outcome, will depend to a degree and, at times, entirely on the general or momentary financial condition of the debtor. Often, however, results depend to an even greater extent on the prompt first attention and even the persistent, systematic, intelligent, even scientific following by the collector. Prompt payment of debts and close collections are desirable because they result in mutual benefits to debtors and creditors. On the one hand, they tend to prevent the debtor from becoming overextended, and on the other, they are the equivalent of increased capital to the creditor.

The debtor may be verging on insolvency. If so, the good collector will probably be the first to realize the fact. His analysis of the situation has prepared him for constructive work. Instead of using the first pretext for pushing the debtor over the brink, he will probably concentrate his ability and energy towards assisting the debtor to such conversion of assets as will assure payment of the account and re-establish the debtor on a better footing.

A debtor with ample assets may be careless, slovenly, or ignorant. In such a case, the collector will by kindly insistence combined with diplomatic discussion of the various excuses presented, not only collect his account, but at the same time assist the debtor to a realization and improvement of his condition.

The debtor with small capital may be doing a volume of business or extending credit disproportionate to his own working investment. Again the collector by discussing and analyzing reasons for delinquency can frequently develop a realization by the debtor that a selection of business most easily obtainable, most profitable, and easily collectible, will improve his credit and at the same time increase his net profit.

The debtor may be dishonest. In such case the collector's first and most important work is to convince him that he is an honest man. The collection can then be made and the conviction of honesty may continue.

These few possibilities show that good collection work is constructive, educative, developing; never destructive, demoralizing, or oppressive. A hard collection properly worked out may result in a condition so much improved as to insure safety and easy collection of subsequent accounts. Record of the information developed in the course of making collection, as to the trend of a debtor's business, marks the passage from safety to hazard in a degenerating business, thereby furnishing a logical basis for declining further credit; or, it may show when recovery justifies the continuance of business relations. In short, a record of steps, information, and developments incident to a systematic following of collections is essential to an intelligent consideration of subsequent credit.

THE COLLECTOR'S QUALIFICATIONS

Probably no line of business endeavor affords greater opportunities for the employment of broad faculties of discernment, discrimination, analysis, decision, and persistence than does the field of collections. To succeed in this branch of business one must possess certain indispensable or desirable qualities of personality, education, and business training.

The collector should be affable, courteous, and considerate. He must be a keen judge of human nature and have the ability quickly to adjust his line of procedure to fit the personality of the debtor. He should have a fair general education and facility of expression. He must be able to grasp and understand the essentials of the condition and environment of the debtor in order to adjust his demands to the highest possible attainments under the circumstances. He should be a leader rather than a driver; diplomatic, not domineering. He must, after having decided on a course reasonable and fair, be persistent, unyielding, and steadfast; never, however, offensive. He should be active, energetic, prompt, systematic. He must be open-minded, straightforward—an example of what he requires of the debtor. Being in the right, he may explain but should not be apologetic. Claiming, even demanding, his dues, he must be gentlemanly, persuasive; never coarse nor insulting. All in all the higher his personal attainments, character, and training the better his qualification for the work he has assumed.

RELATION OF COLLECTIONS TO OTHER DEPARTMENTS

The relation of sales, credits, accounting, and collections is so close that in a consideration of one we must

at least note and define its points of contact with the others, so that the furtherance of one function will neither break nor mar the harmonious whole. Indeed, each unit sale embodies and includes the functions of sales, credits, accounting, and collection. A sale is worthless until credit has been checked, record made, and collection effected. Credit must consider sales and accounting expense as well as collection probability and expense. Accounting must portray sales terms as checked by credit, and present a basis for collection. Collection must support and justify credit by completing the transactions started by the sales department and shown on the records of the accounting department.

In the smaller organizations where all divisions of business are under the supervision of one individual, collection naturally follows lines which not only justify the credit but also take into consideration future sales and credit to the same debtor. In larger institutions where it is profitable, expedient, and even necessary to specialize, there is need for some care in order that each division will not lose sight of the organization as a whole or of any part, but rather will develop and maintain a spirit of co-operation.

Just where the collection department should fit into a business organization is a problem subject to all sorts of exceptions from the ideal. The collector's work supplements and supports that of the credit man. On the other hand, the credit man connects more closely with the salesman's point of view. Hence, the logic of placing collections under the jurisdiction and direction of the credit man.

TEST QUESTIONS

1. Distinguish between collections in the broad general sense and as used in this book.
2. What is the working definition of collections given in this chapter?
3. What problems must a collector consider in his relations to debtors?
4. What are the outstanding qualifications of a good collector?
5. What should be the relation of the collection department to other departments in a business?
6. At what position in the organization of a firm is the collection department usually placed?

CHAPTER II

PSYCHOLOGY OF COLLECTIONS

Success in whatever line, direction, or enterprise rests on a correct mental conception of the matter in hand, worked out through mental and physical action. If the mental concept or the premise from which it springs is in error, no amount of intelligence or energy can produce a satisfactory result. Certain lines of advertising or sales campaigns, for example, are foredoomed to failure, because they do not take into consideration the laws which govern known thoughts, motives, and actions.

These psychological generalities apply as well to the collector and his work as to other lines of endeavor. There are peculiar states of mind incident to maturing and lapsing obligations which, if recognized and acted upon, simplify the collector's problem, but which, if not understood or acted upon at the right moment in the right way, may make collection impossible.

Most men are honest, some from expediency, more from choice. They incur obligations, confident in their ability to pay and fully intending to do so. If their confidence in their ability rests on tangible, convertible property or collectible receivables with ample margin of surplus, they will seldom go far wrong. If, on the other hand, their confidence rests on untried experiments or on erroneous conceptions of the convertibility or amount of the assets, there develops a condition which calls for great care and watchfulness on the part of the collector.

This is especially true when the case develops to the point where there is little or no margin of safety.

MENTAL STATE WHEN DEBT WAS INCURRED

In approaching a debtor, a knowledge of the mental concept that resulted in the incurring of the liability is frequently valuable. The mere fact of the delinquency proves that there was an error of judgment unless, as is too frequently the case, the debt was contracted without due consideration of the element of time or under a belief, possibly warranted to a degree by previous indulgences, that, regardless of a specific maturity date agreed upon, it is unreasonable to consider terms of maturity from any other standpoint than the convenience of the debtor.

If the delinquency is found to be caused by an error of judgment in contracting the obligation, or if a change of conditions or environment that could not reasonably have been foreseen has occurred, the attitude and procedure of the collector should be so shaped as to conform to these facts and to assist the debtor in recovering from his embarrassment. If, on the other hand, the delinquency is traceable to a habit or disposition of the debtor to ignore or consider of no importance the time element of the transaction, or to a belief that he has an inherent right or option to readjust maturity to his own convenience as it later develops; or, if he has incurred the indebtedness in a vague, haphazard way and without any specific source of funds for payment in view, these facts should be considered by the collector. His procedure then should be shaped along more drastic lines for realizing fully and quickly the amount due. He should work not only for realization, but with the view of disciplining the debtor, adjusting his understanding as

to terms, and instilling in his mind the importance of considering ways and means for payment as well at the time of incurring liability as afterwards.

MENTAL STATES AFTER DEBT IS INCURRED

The collector should consider, likewise, the state of mind or the mental attitude of the debtor at various stages after maturity of his obligation. If he makes a close psychological study of debtors in general, he will discover a stage of mental unrest, even discomfort, with practically everyone. This begins to be manifest shortly before the maturity of an obligation, particularly if means for payment are not in hand, and becomes acute right at maturity. It then gradually wears away, so that within a few days after the acute stage of agitation is over the thought, or even a reminder of the obligation, does not seem to spur the debtor to special effort as would have been the case right at the time of maturity.

A little pressure brought to bear during the acute stage of unrest, reinforced as it is by the debtor's mental state, generally causes him to bend all his energy towards liquidation, resulting often in immediate payment, or almost certainly at least in a much shorter period of delinquency. The collector having in mind this same mental unrest at maturity demands, and insists, that the debtor agree to another fixed date in case he is absolutely unable to pay promptly. Debtors accustomed to ignoring terms can at this stage be impressed with an understanding of the importance of preparing for payment at maturity. It is true, however, that even with the weight of improbable further leniency, the unrest will be less acute at the second maturity, and will probably become less distressing with each succeeding postponement. To counterbalance this increasing tendency to indifference, the

debtor must be made to understand in no uncertain terms that the one extension is final and that when the obligation again matures it must be met promptly.

THE COLLECTOR'S MENTAL ATTITUDE

While considering the psychology of the debtor both at the time of contracting the debt and its maturity, the collector should give thought to his own frame of mind so that he may not unconsciously shape his approach and procedure along lines that will tend to develop antagonism or carelessness and thus make the attainment of his object more difficult and expensive. He must recognize the lines of least resistance in the collection of accounts, and then studiously adapt all his means to the attainment of his purpose.

The collector need not be, indeed, it is better that he should not be, apologetic. Having a right to expect from the standpoint of business ethics that the debtor intended to pay at maturity and had prepared to do so, the collector can very logically base his first polite reminder on the assumption of oversight. After the collection process has been set in motion, the development and degree of insistence in the collection methods will depend on the debtor's response or failure to respond, on a study and review of the original basis for the credit, and on a tracing of developments in and around the debtor's affairs down to date. The collector cannot be too careful in checking his own mental attitude toward the debtor and his problems on every one of these points. The methods he uses as well as the results he obtains will in each case reflect his understanding of the psychology of collections. The collector needs to be profoundly conscious all the time of the fact that he is dealing with varied human minds in a peculiar mental state.

TEST QUESTIONS

1. How is psychology related to collections?
2. Why is it important to consider the psychology of the debtor at the time the debt is incurred?
3. What are the two typical states of mind among debtors at that point?
4. How is each case to be handled at the beginning?
5. Explain the "mental unrest" of the debtor.
6. In what respect should the collector constantly check his own attitude of mind?

CHAPTER III

BASIS FOR THE DEBT

The source of the debt, or the consideration for which it was incurred, has a decided bearing on the ability and preparedness of the debtor for payment. Where collection calls for attention more elaborate than simple presentation of claim, the source of the debt should receive due consideration in developing the plan, sequence, and frequency of attention.

DEBTS FOR MERCHANDISE

Where the debt has been incurred in the purchase of merchandise or commodities for resale, the collector should inform himself to what extent resale has been effected. He should, however, do this in such manner as to give the debtor no ground for urging unsold goods as an excuse for deferring payment, and in a way to avoid giving him any rights or options other than those stated in the original contract. The probability of resale in the light of general demand, season, environment, and whatever other conditions have a bearing on the case, should have been, and probably was, considered in checking the credit. It is well, however, in case of delinquency, to review these data so that conclusions may be readjusted if an error has been made. Where other resources for payment are either lacking or inadequate, or where the resale cannot be accomplished through the

granting of further time, the goods may frequently be repossessed and the loss minimized thereby.

DEBTS FOR EQUIPMENT

Debt incurred for machinery, equipment, or other operating facilities must be considered from the standpoint of profitable production or use. Only slight consideration can usually be given to the convertible value of the articles themselves. If repossession must be considered, the effect of time on the depreciation of the asset, whether it was in use or idle, should be fully considered.

DEBTS FOR BUSINESS EXPENSE

A debt for business expense which has no direct reflex in tangible assets must be considered in its bearing on profitable production or conversion of property. Its payment depends on realization from the articles produced or converted. A debt incurred for business expenses will necessarily have to be treated in such manner as to make possible the profitable operation of the business and the final realization of the debt out of profits.

DEBTS FOR PERSONAL EXPENSES

A debt for personal expense such as food, clothing, schooling, etc., has no counter assets, and further, does not increase the convertible value of assets. Its payment must be made from capital or current earnings of the debtor. It is the least justifiable of all debts.

DEBTS FOR CAPITAL OUTLAY

Indebtedness against real estate and for capital investment depends for liquidation on the convertibility, use,

or operation of the property against which the debt is incurred. Liquidation in such cases is usually a slow and tedious process involving many legal formalities and proceedings. Such property frequently shrinks to but a fraction of its anticipated value if foreclosure proceedings are necessary.

FOUNDATION FOR COLLECTION

Intelligent classification and study of the basis of the debt in its relation to the source from which means for liquidation must be derived is the foundation for constructive collection procedure, and results are frequently dependent on a correct understanding and development of this underlying structure.

TEST QUESTIONS

1. Why is the source of the debt an important consideration in collection work?
2. How is this question related to debts for merchandise?
3. What tests should be applied to debts incurred for equipment?
4. What are the characteristics of debts incurred for business expenses?
5. What can you say about debts incurred for personal expenses?
6. What special points should the collector consider in dealing with debts for capital outlay?

CHAPTER IV

TERMS

THEIR MEANING

In collections, "terms" is used in a restricted sense and has reference to the length of time for which the credit is to run. To a degree the form in which the record or acknowledgment of the debt stands is also embodied in the terms; that is, the obligation may rest on a simple record called an open, or ledger account, or it may be evidenced by a note or some other document or documents signed by the debtor.

CLEAR DEFINITION

For collection reasons terms should be clearly defined and understood by both creditor and debtor, because, undoubtedly, a large percentage of collection difficulties and delinquencies are the direct result of ignorance or misunderstanding of terms. When the terms are clearly defined and understood, there should be no occasion for the creditor to demand payment or even to remind the debtor of the pending or past maturity. Debtors do default, however, to such an extent that it has become common practice to send periodical reminders (generally monthly statements) showing terms, or maturity date, or both, to debtors on open account. On notes or similar obligations, a single notice of maturity is sent a short time before the obligation falls due.

ACTUAL PRACTICE

Where the terms applying to each transaction are definitely stated, the start towards effecting collection is simple and unlikely to develop friction or dispute. Where similar transactions between the same parties or covering the same commodities are frequent so that terms become standardized, as it were, the practice of omitting definite statement of the terms in each transaction or referring to them as "regular" has become prevalent. This practice is a convenience, but it opens an opportunity for disagreement, particularly where different commodities carrying different terms are embodied in one transaction or where for some reason an exception to regular terms has previously occurred between the parties.

Then again in certain communities terms, particularly in retail transactions, are very loosely construed and are likely to mean no more to the debtor than "his convenience." In such cases about the only procedure open to the creditor is to assume that a "reasonable" time has elapsed and to demand payment. If he fails to get satisfactory returns on that basis, he should then endeavor to reach an agreement with the debtor as to maturity.

The collector should use his influence to the utmost to break up such loose practice, and should insist either on a standardization of terms so far as the trade of his house is concerned, or, if standardization is not practicable, on a specific agreement with regard to terms on each credit transaction.

The collector is interested in terms, not only on account of the desirability of being sure of his ground so as to avoid all occasion for dispute, but also on account of the

psychological and financial bearing of such factors as short terms, long terms, and maturities at logical times or seasons. Every business enterprise will find it advantageous to standardize its terms or if standardization is impracticable, so to adjust them that accounts of its debtors fall due under conditions when payments are most easily and willingly made.

TEST QUESTIONS

1. What is the significance of the word "terms" in collection procedure?
2. How does clearness and definiteness in terms aid the collection of accounts?
3. What is meant by describing terms as "regular"?
4. For what two main reasons is the collector interested in the terms of a sale?

CHAPTER V

FORM OF THE DEBT

In the contract, whether a simple order for goods or something more formal, the stipulation as to the form of the record or the certification of the indebtedness is usually specified in connection with the terms and considered as a part thereof. These forms of a debt and their significance deserve some consideration.

Where, in the ordinary commercial order or contract, the form of the obligation is not stipulated, it is customary to assume that the simplest form; viz., the open account is understood, unless local custom or general practice in connection with the commodity covered decrees otherwise. An open or ledger account is a simple, abbreviated record, or memorandum, of the fulfilling of a contract or order of purchase, and usually consists of name and address of debtor, date of transaction, terms, and amount. This record may be kept in a bound or loose-leaf ledger or on a card in a card file.

An open account rests on an invoice, which gives in addition to the data carried to the ledger record, numbers, description, weights, or other matter necessary to identify the articles covered and the essentials of the contract. The invoice, where delivery of the goods has been made by common carrier, is usually accompanied by a bill of lading, or other evidence of delivery to the carrier, and mailed to the purchaser, now the debtor. The invoice and the bill of lading both rest on the original memorandum,

order, or contract, which, of course, constitutes the evidence of a sale.

SECURED ACCOUNTS

Where for any reason the seller or creditor in connection with an open account requires security or guarantee of assurance of payment other than the promise and financial strength of the debtor, agreement in detail with regard to security is embodied in the contract of sale and purchase or in a supplemental contract or correspondence connected therewith. Where the security is personal, that is, an agreement on the part of a third party to pay in case of default of the principal debtor, it usually is in the form of a written obligation more or less formal. In some cases it is covered by a simple letter from the guarantor to the creditor stating that the guarantor will insure payment of the obligation. A simple and effective form for such guarantee may be as shown in Figure 1.

A few legal points deserve consideration in this connection. The statute of frauds, generally adopted in the United States, provides, among other things, that no action shall be brought whereby to charge the defendant upon any special promise to answer for the debt of another person, unless the agreement upon which such action is based is in writing and signed by the party to be charged. Such a contract must be supported by a sufficient consideration. If the contract between the creditor and the debtor is induced by the surety's promise to the creditor, the making of such a contract is sufficient consideration. However, if the surety's promise is subsequent to the creation of the debt, there must be some new consideration or the promise is void.

.....191..

The Jackson Lumber Company,
Busytown, Washington.

Gentlemen :

In consideration of your now and hereafter extending credit as you may see fit to..... of..... the undersigned.....of.....do hereby guarantee to you, your successors, and assigns, the payment, when due, of any and all accounts and indebtedness now due or to become due for or on account of goods and merchandise sold or advanced or hereafter to be sold or advanced by you or your successors and assigns to said.....or to.....order.

Notes and other evidences of indebtedness and securities may be received by you, your successors, and assigns, on account or in settlement of the indebtedness hereby guaranteed, and may be renewed and extended as you or your successors and assigns desire, and the principal contract may be modified or dealt with in any way without notice to the undersigned, without in any way impairing or affecting the liability and obligation under this guaranty for any amount remaining unpaid in cash to your company or its successors and assigns.

Notice to the undersigned of the acceptance of this guaranty and of sales or advances made or to be made thereunder and of any default on the part of said is hereby waived.

This guaranty to be a continuing one, and to remain in full force and effect until the written revocation thereof is received by your company or its successors and assigns.

.....
.....

FIG. 1.—Form of a Personal Guarantee for an Account

\$ _____	Chicago, Ill. _____	191 _____
_____ after date for value received _____ promise to pay to		
the order of _____		
_____ Dollars,		
with interest at the rate of _____ per cent. per annum after _____		
Payable at _____		
No. _____	Due _____	

FIG. 2.—An Ordinary Note

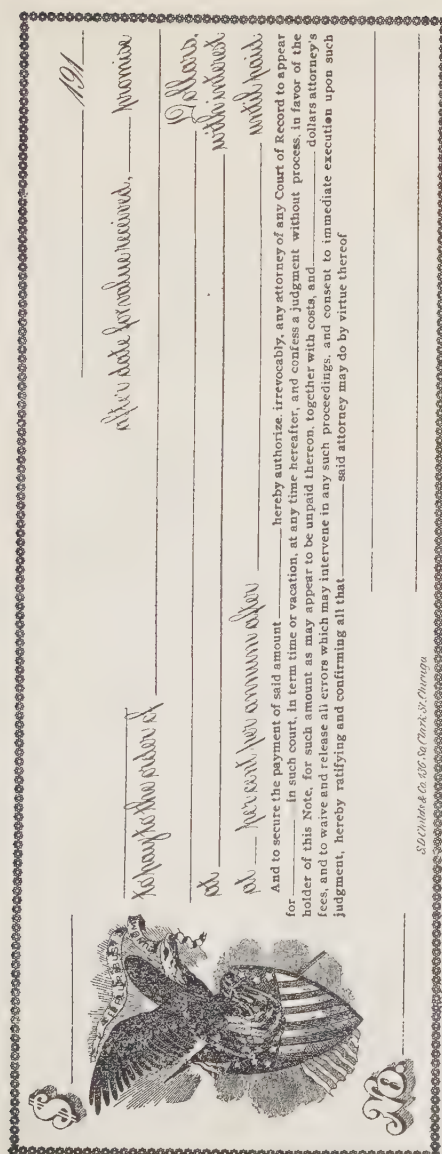
If the security is to be by mortgage, it is customary to close the account by note, the note to be secured by mortgage. If, however, the account is to be continuous and changing from time to time, the mortgage may be connected with the account by proper agreement and stipulation in the mortgage itself in order to make it unnecessary to close by note.

NOTES

The form next most prevalent is the plain note sometimes called a "note of hand." Use of such notes is frequently made in connection with the ordinary transactions covered by invoice and open account, carrying the process a step farther, or, in common parlance, "closing the account by note." The note itself is the original document of record where the transactions involve banking credits or other loaning of money or credit.

The usual form of plain note consists of address and date and a promise to pay to the creditor, or his order, at a specified time and place the amount covered by the transaction with interest, signed by the debtor. Figure 2 shows the familiar blank form.

This simple form may be, and frequently is, elaborated by special agreement with respect to the payment of attorney's fees in case suit is necessary, and other agreements in most frequent use in notes are: retainer agreements customary or exacted by the creditor. Such of title to articles for which the note is given; provision constituting the holder the agent of the maker with power to confess judgment in case of default; provision in notes issued in series under which default in payment of any one in the series matures the succeeding notes of the series. Such provisions do not affect the negotiable character of a note. It must be borne in mind, however,



To pay for the order of _____

\$to _____ Dollars
with interest _____ until paid.

And to secure the payment of said amount _____ hereby authorize, irrevocably, any attorney of any Court of Record to appear for _____ in such court, in term time or vacation, at any time hereafter, and confess a judgment without process, in favor of the holder of this Note, for such amount as may appear to be unpaid thereon, together with costs, and _____ dollars attorney's fees, and to waive and release all errors which may intervene in any such proceedings, and consent to immediate execution upon such judgment, hereby ratifying and confirming all that _____ said attorney may do by virtue thereof _____

S.D. Ogden & Co., Cash, St. Charles, St. Anthony

FIG. 3.—A Judgment Note

that some of these are illegal in some states and that they are restricted in others; hence, such forms should not be adopted except under legal advice. One such form is shown in Figure 3.

SECURED NOTES

Special provision for assuring payment is more prevalent in connection with notes than with open accounts. Such provision, called security, occurs in numerous forms of varying significance and efficacy, and calls for collection treatment according to the custom and the law appertaining to each case.

PERSONAL SECURITY

The most simple form of security is that known as "personal," and is evidenced by the signature of one or more persons (other than the maker), who thereby become sureties or guarantors for the debt. The additional signature or signatures may be written on the face of a note under that of the maker, in which case they are designated as "security" or, in some localities or under certain conditions, as "joint makers." The note is then known as a "joint note" or a "joint and several note." The additional names may be written across the back of the note and the persons so signing are then known as "indorsers" or "surety by indorsement."

An indorsement may consist of a plain signature, or it may be qualified by limitations written or printed either on the back above the signature or on the face in the body of the note above the signature of the maker.

An indorsement by the original payee of the note whether in blank, which makes the note payable to bearer, or specifically to a third party named, binds the indorser

Due.....

CHICAGO, ILL......191

I promise to pay to the order of

DOLLARS.

with interest at the rate of seven per cent. per annum after maturity until paid.

Sign here; (

also below

The undersigned has deposited with said Bank, as collateral security for the payment of the above note, and of every other liability or liabilities, either direct or contingent, now owing or which may hereafter be owing, whether now or hereafter contracted, of the undersigned (including all liabilities of any partnership created while the undersigned, may have been or be a member thereof) to said payee, or to the legal holder thereof, the following property, viz:

With the right on the part of the said Bank or the legal holder hereof from time to time to call for additional security of such kind and value as will be satisfactory to said Bank or the legal holder hereof, and on failure to respond, or if in the judgment of said Bank, or the legal holder hereof, said security, or any additions thereto or substitutes therefor or any part thereof, shall have depreciated in value, then the whole of the above note shall be deemed immediately payable at the election of the said Bank or the legal holder hereof, with full power in said Bank, or the legal holder hereof on maturity thereof, either by its terms or by election as aforesaid, or on the non-payment of any of the other liabilities above mentioned, to at any time, and from time to time, sell, assign and deliver the whole of said property and all additions thereto and substitutes therefor, or any part of said property, additions and substitutes, at any public or private sale, at the option of said Bank, or the legal holder hereof, and without advertising the same and without notice to the undersigned, and with the right of said Bank or the legal holder hereof, to be a purchaser at any public sale or sales; and in the event of any sale or purchase hereunder no matter by or to whom made, all notice thereof, and any and all equity or right of redemption, whether before or after sale hereunder is hereby expressly waived; and, after deducting all legal and other costs and expenses, including reasonable attorneys fees, from the proceeds of such sale or sales, to apply the remainder on any one or more of said liabilities, whether due or not, as said Bank or the legal holder hereof shall deem proper (making rebate of interest on any demands not matured), and return the surplus, if any, to the undersigned. Said Bank or the legal holder hereof, may at its, his or their discretion enforce the collection of said security, additions thereto and substitutes therefor by suit or otherwise, and may surrender, compromise, release, renew, extend or exchange all or any of the same. Said Bank or the legal holder hereof is hereby authorized and empowered at any time to apply to the payment of any liability or liabilities, whether the same be due or not, of the undersigned, to said Bank, or to the legal holder hereof, (including any liability or liabilities of any partnership created while the undersigned may have been or be a member thereof), whether the same be due or not, all property real and personal, of every kind and description, including balances, credits, collections, moneys, drafts, checks, notes, bills or accounts (whether on hand or in transit) of the undersigned

Sign here;

also above

ADDRESS.....

FIG. 4.—A Collateral Note

For Value Received, we, the undersigned, do hereby jointly and severally guarantee the payment of the within note at maturity with seven per cent. interest per annum from maturity until paid, and agree to pay all costs, expenses and attorneys' fees paid or incurred in collecting the same from, or in prosecuting any suit against any one or more of the makers, endorsers or guarantors of said note, and hereby waive any and all demand, notice, protest and notice of protest.

as surety for the payment of the note to the legal holder in due course, unless his indorsement be preceded by the words "without recourse." The holder of a plain indorsed note can elect, after making legal demand on the maker, to enforce payment from such transferring indorser, leaving it to the latter to proceed against the maker and prior indorsers, if there are any.

The relation and obligations of maker, payee, and indorsers of notes are covered by various statutes in greater or less detail, and the holder should see that all collection procedure conforms strictly to the requirements of such laws in the several states so that the rights of all parties at interest may receive the protection contemplated. Brief tabulated digests of these laws revised from time to time may be procured as quick reference guides upon these questions. All important cases should be preceded by legal investigation before action is taken.

COLLATERAL

Another common method for securing notes is by collateral. This consists in depositing with the payee or holder of the note, bonds, certificates of stock, notes by other makers, secured or unsecured, warehouse receipts, or other negotiable documents representing value. The conditions under which collateral security is deposited and held are generally covered by a special contract embodied in or attached to the note so secured, or by a separate contract or receipt. In either event procedure should follow lines sanctioned by custom and law. Figure 4 illustrates such a collateral note.

Notes pledged as collateral security are usually placed with the pledgee. It is his duty to collect any interest payments due on the note, all partial payments, if any, and the principal itself at maturity. He should take all

the legal steps required in such cases, notify indorsers, and do everything that a holder in regular course would do to secure payment. He may even sue for any payments due on such a note held by him as security. Amounts collected on collateral notes, less expense of collection, should be indorsed on the principal note until it is paid in full with interest. After such liquidation of the principal note, the residue, if any, of the collateral notes, or proceeds of collection therefrom, is turned over with the canceled principal note to its maker.

In case the note secured by collateral is not paid at or before its maturity, the pledgee may either proceed personally against the debtor on the original debt, or procure satisfaction by enforcing the pledge by sale of collateral, in accordance with the terms of the contract. Such sale may generally be made without a judicial decree. Stocks so pledged are usually assigned in blank and may readily be transferred to any purchaser. The pledgor frequently waives notice of sale and any particular method of sale. The sale should always be made in such a manner as to secure the best price for the security, and for this reason a public sale is to be preferred to a private sale. The proceeds are then applied to the payment of the debt, and the pledgor is charged with any deficiencies or credited with any surplus.

Where foreclosure and sale of collateral become necessary, great care should be exercised as to formalities required by law, as these vary in different states.

MORTGAGE

Notes are frequently secured by mortgage on personal property or on real estate, or on both. Mortgages on personal property may be a conditional transfer direct to the payee or holder of certain specifically described

movable property as security for payment of a note or notes described or copied in the instrument of transfer known as a "chattel mortgage"; or, a transfer of title to such property to a third party as trustee, authorizing him in case of default to convert the property into cash to be used in payment; (1) of the expenses incident to the trust, (2) of the principal and the interest of the secured obligation, and (3) of the balance, if any, to be paid over to the mortgagor.

The important features of a chattel mortgage or chattel trust deed are a careful detailed description of the article or articles covered so that they may be easily identified, a complete description or copy of the note secured, and full provision for foreclosure in case of default, such provisions conforming closely to statutes covering such documents and to the filing or recording thereof in the office of public recorder or magistrate as required by law.

Mortgages or trust deeds against real estate are similar in provision to those on chattels except that they are more formal as to form and requirements with regard to record and release.

POSSESSION OF MORTGAGED PROPERTY

Under mortgages and trust deeds, both chattel and real estate, right of possession and use of the property pledged remain in the mortgagor until default and formal possession is taken by the mortgagee or trustee or some officer representing his interest under form and process of law. Collection of obligations secured by these or other special means for guaranteeing payment follow a procedure similar to that applying to unsecured debts, except that great care must be exercised to preserve the

legal status so that enforcement against the security, if necessary, may not be jeopardized.

EXTENSIONS

In collecting accounts or notes it often becomes necessary to grant an extension of additional time, and as consideration for such extension security is frequently tendered or exacted even though they were not previously secured. On items previously secured, additional or more desirable security is often required or given. This is good practice even where there is little danger of ultimate loss on the existent security or even of the necessity for enforcement against the security, because the ordinary debtor will begin earlier and exert himself more continuously in an effort to provide for prompt payment of a fully secured, than of a partially secured, or wholly unsecured, obligation. He is confronted not only with a loss of prestige and credit standing, but also with the expense and loss of value incident to enforcement against the security. In all agreements for the extension of time or change of terms, and particularly with secured claims, great care should be exercised in order to have the agreement conform with legal provisions of a binding contract, including the factor of "consideration."

TEST QUESTIONS

1. What is meant by an open account?
2. Of what value is the invoice from a collector's standpoint? The bill of lading?
3. What is meant by a secured account?
4. What are the essential provisions of a personal guarantee of an account?

5. Explain the use of notes in closing accounts. What special conditions are sometimes included in such notes?
6. What is meant by personal security on a note? How is it arranged?
7. Explain collateral security on a note.
8. Explain the use of mortgages as security on a note.
9. What important factor should the collector consider in extending time upon notes?

CHAPTER VI

RIGHTS OF CREDITORS

FUNDAMENTAL RIGHTS

A creditor has a legal and moral right to that which is due him. In good faith he has transferred property or credit or has rendered a service to the debtor, and accepted therefor, in lieu of immediate payment in property, cash or transfer of negotiable credit, a promise, either verbal, written, or implied, to pay at a time specified, or, if not specified, at a time established by custom in similar transactions. He has an inherent right in case of default to demand payment and, failing to realize within a reasonable time, he may enforce his claim by legal process against the debtor and his assets or visible resources. This right is so ethical, so reasonable, and so generally understood that a collector, whether principal or employee, should have no feeling of hesitancy or apology in pressing his demands.

On the other hand, the debtor should be led to understand that concessions or extensions, if made, are either based on the direct interest of the creditor, or are extended as a personal favor to the debtor, and should be so considered and acknowledged.

MODIFICATIONS

In practice, very few creditors or collectors exact the "pound of flesh." Instead of demanding payment, they

politely invite attention and, where additional time is asked, they give careful consideration to the debtor's explanation as to the cause of the defalcation and his propositions for advancing the maturity. If, as sometimes happens, the creditor is in severe straits himself so that he cannot without serious loss of resource or credit agree to an extension, the collection must be forced regardless of its effect on the debtor and his business, but short of such necessity such action is rare. Few creditors care to appear in the role of oppressors, even in their own consciousness, and would not do so lightly.

Aside from this strictly humanitarian reason, the relation of debtor and creditor is so involved with future transactions between the same parties and between either of them and others that it is often profitable for both to find a basis offering greater convenience to the debtor with no serious hardship to the creditor. Indeed, such readjustments have become so frequent and are based on such flimsy pretexts that credit has become cheapened to such an extent that the slovenly debtor has become prone to distort his *privilege* to ask for indulgence, to a *right* to demand whatever concession may suit his convenience, overlooking the fact that persistence in such methods may result in a withdrawal of credit not only in that quarter but also by others as well. The creditor encouraging, even tacitly, such views in his debtor is a contributor towards developing demoralization, the reaction from which is felt by the entire business community.

The correct, the popular, the practical, as well as the ethical attitude for the creditor to assume is, first to expect and then, if need be, demand his specific rights. Afterwards he may, if he sees fit to do so, exert his further right to modify his demands, in order to soften a

hardship brought about by ignorance of the debtor, or by miscalculation, or by change of conditions; basing such action on friendship, philanthropy, or on expediency in the interest of his own affairs or reputation. He should never himself lose sight of his inherent right in the premise nor should he permit the debtor to do so, because stability of credit rests on recognition of the right of the creditor to expect promptness and to dictate after maturity.

Furthermore, the debtor who from bad judgment, carelessness, or ignorance habitually contracts obligations he cannot retire promptly at maturity is a business demoralizer, a contributor to defalcations of others, and, if he cannot be educated to better methods, should be forced to confine his operations to a cash basis. The best, probably the only way he can be brought to a more businesslike and equitable basis is by his creditors' forcing him to promptness or withdrawing entirely the privilege of further credit. Such restrictions do not curtail the ultimate volume of business but simply confine it to better and more profitable channels; neither do they entail undue hardship on the unworthy, who not only is a demoralizer, but also would himself be better off in lines where he is not so palpably a misfit.

TEST QUESTIONS

1. What are the fundamental rights of a creditor?
2. On what conditions should extensions be made?
3. What matters should be considered in making modifications in outstanding accounts?
4. At what point can the collector afford to be liberal in dealing with delinquent accounts?
5. How does the creditor by insisting upon his rights render a real service to business?

CHAPTER VII

ENVIRONMENT

When, in making a collection, more than first or preliminary steps are necessary to enforce the payment, it is profitable for the collector to make a close investigation and study of the debtor's environment, or, stated more specifically, of the situation with regard to the source from which he must secure funds with which to pay. Indeed, had this feature been given due consideration by either party at the time the obligation was contracted, it is probable that the terms would have been adjusted so as to avoid defalcation; or, if this had been impracticable, the credit would have been deferred or even declined. The wise user of credit looks forward as he contracts an obligation and takes into careful consideration the source from which he can reasonably expect to realize funds not only for the payment of the particular debt that he is contracting for, but also for the payment of other obligations already incurred, or to be incurred in the interim, making due allowance for unforeseen contingencies and the general fluctuations incident to his line of operation. The credit grantor should also be advised regarding these details, since by observing such principles he reduces the work and expense of collection to simple routine. Besides, in getting this information from and before the debtor, he incidentally reminds him that it is well, and to his own

interest, to look forward to provision for payment before obligating himself.

SEASONS

In many lines and in most localities business activity varies widely with the seasons, and even where the volume of transactions is practically uniform throughout the year or from year to year, there is considerable fluctuation in cash transactions and in collection against credit items. By a study of the underlying elements of production in the debtor's neighborhood, the collector can judge whether there is normal cause for the delinquency. In an agricultural community engaged largely in truck farming or the production of small fruits, money should be flowing freely during the spring and early summer months. Where wheat and other small grains predominate, late summer and early fall should be easy; corn if sold or fed to hogs, late fall and early winter, and if fed to cattle, late winter and early spring; cotton, fall and winter.

Manufacturing in many lines as well as employment for mechanics and laborers also fluctuates with the seasons. The collector should inform himself with regard to the production source from which the debtor derives his income so that he may avail himself of the most favorable opportunity for results. If he finds the debtor heavily involved in several quarters, he will do well to begin pressure early rather than late in the season of liquid funds, otherwise it may develop that the constant pressure under which other creditors have kept him will have exhausted his available funds.

FINANCIAL CONDITION

In the last analysis, collection rests and depends on the financial strength and resourcefulness of the debtor.

This is just as true of the clerk or laborer earning a few dollars a week as of the merchant, the manufacturer, the property owner. Honesty and good intent alone cannot pay. Neither is it safe to assume that the honest man will not contract an obligation when means for payment is nonexistent or uncertain. He may be innocently unaware of his inability, or conditions over which he has no control may arise after the debt has been contracted.

In any event, as a foundation, the collector should inform himself with regard to the financial affairs of the debtor. If he finds funds in hand or in the bank, his problem is reduced to developing ways and means to induce the debtor to satisfy his claim. If funds are not immediately available, he must discover the resource most easily convertible, satisfy himself as to a reasonable time for such conversion, and effect an arrangement which will as nearly as possible assure payment from the earliest returns. If the debtor has no convertible assets but depends on returns for labor or service, the arrangement made must conform to this condition.

Whatever the condition may be, allowance must be made for expense, either business or personal, or both, and an agreement made for application on the debt in such amount as the amount realized in conversion or from service exceeds the necessary expense. Demand and pressure for payments in excess of net returns from operation or liquidation where no other convertible assets are available, will obviously result in defalcation, or in forced liquidation at a loss to the debtor and very possibly to the creditor as well.

Information relative to the state of the debtor's finances without doubt served as a basis for the credit when it was extended. The defalcation indicates that such information was erroneous or incomplete or that a

change in the basis has occurred. In either case, the credit data while serving as a starting point have little further value to the collector inasmuch as they must for his purpose be reconstructed to cover the later situation with which he is confronted.

The collector in securing and analyzing financial data places himself in a position in which he knows what can be reasonably expected, and consequently can intelligently insist in case the debtor does not willingly fall in line; or, in the rare instances where resort to legal action is necessary, he can attack understandingly and with reasonable certainty of the outcome. Ordinarily, if the knowledge of resources in a case is developed in sufficient detail, the debtor will heartily endeavor to meet the views of the collector where they are based on such conception and analysis of the situation as will convince him of the feasibility of the proposed plan. The analysis of the situation by the debtor and the collector together, develops in the debtor's mind a clearer concept of his affairs than would be possible were he acting without advice, and enables him not only to work out his present embarrassment but also to avoid similar complications in the future.

TEST QUESTIONS

1. What is meant by "environment" as related to collection matters?
2. What factors are to be considered in analyzing environment?
3. Explain how seasonal variations in industry affect the collector's problem.
4. How do these matters affect a manufacturing community?
5. How can a collector assist a debtor who is in strained financial conditions?

CHAPTER VIII

COLLECTING COMMERCIAL ACCOUNTS

As probably over 90 per cent of the collections requiring more than initial routine attention grow out of what are known under the broad term "commercial transactions," the selling on credit by manufacturer, jobber, or retailer, the application of principles and routine as developed by experience and custom will first be considered in connection with such accounts. The cases which develop unusual or peculiar features or grow out of transactions of materially different nature will be left for separate treatment.

WHOLESALE ACCOUNTS

Accounts of merchants for purchase of commodities or merchandise for resale whether from manufacturer, jobber, broker, or other merchant, are known as "wholesale accounts." Such accounts are largely, if not entirely, against customers located at points some distance from the seller's place of business and are generally contracted through salesmen or agents of the seller calling on the customer, or by mail or telegraphic correspondence, or by a combination of these various facilities. Usually the seller has no personal acquaintance with the customer, and even the seller's agent sees him only at infrequent intervals and has very little opportunity to learn a great deal that is essential in the

intelligent opening of an account without making special investigation and inquiry for the purpose.

The credit is based on ratings in publications issued by agencies furnishing credit information for a consideration and on reports from such agencies, supplemented in some instances by information gathered through inquiry from local banks or other concerns or individuals acquainted with the customer, and sometimes by statements from the customer direct. Such information no matter how carefully and conscientiously compiled is by no means infallible, and, even if it were, unforeseen changes might occur before the credit matures. Besides these elements of uncertainty the reason for credit itself, viz., the allowing for opportunity to make certain business turns before payment must be made, will at times result in disappointment. Where business is done under such conditions and credit is granted on such basis, some delinquencies are unavoidable.

It is the general custom to extend credit privileges wherever ultimate payment is considered practically assured, and without much, if any, regard to probabilities of promptness; hence the necessity for special collection facilities and activity.

CLASSIFICATION OF ACCOUNTS

Regardless of the degree of care and judgment exercised in checking credits, accounts may very logically be grouped in four classes: viz., (1) *discount accounts*, (2) *prompt-payment accounts*, (3) *difficult accounts*, that is, *slow but good accounts*, and (4) *bad accounts*.

DISCOUNT ACCOUNTS

Terms in commercial practice are usually stated as a specific number of days or months, net or subject to a

stated per cent of discount for cash if paid within a stipulated shorter period. The rate of discount when reduced to terms of annual interest for the period of time intervening between the discount date and the net maturity date generally affords a premium over usual interest rates; e. g., terms 30-2-10, or, stated in full, 30 days net, subject to discount of 2 per cent if paid in ten days. The difference between the discount date and the net maturity date is 20 days—2 per cent for 20 days equals 1 per cent for 10 days or 3 per cent a month or 36 per cent per annum.

Likewise, terms 30-1-10 equal 18 per cent per annum; 30-1/2-10 equal 9 per cent per annum; 60-2-10 equal 14½ per cent per annum.

These are very common terms on staple articles. Less staple or seasonal goods frequently take longer or special terms with varying but generally profitable rates of discount.

In these days of close competition, the merchant whose business is so inadequately capitalized or poorly conducted that he at the very least cannot save his cash discounts on his staple commodities, is operating under a serious handicap and will certainly be subject to embarrassment during the inevitable periods of financial or local depression. Happily, as the business of the country develops it centers more and more in the hands of those best equipped financially, mentally, and by training, so that the ranks of the discounters grow stronger from year to year.

The discounter is unknown to the collector. He absorbs through his discounts into his own profits, not only a high rate for eliminating the time element from his purchases, but also the cost of collection as well.

PROMPT-PAYMENT ACCOUNTS

Next in order of desirability is the customer who pays promptly at maturity. During periods of normal business and financial activity he, too, affords little for the attention of the collector. He may require attention to the extent of a polite reminder, or, as he merges toward the ranks of the "slow pay," even a draft or a follow-up letter but, in the main, simple routine is all that is necessary.

When, however, periods of depression either general or local occur, the normally prompt-pay customer is prone to join the "slow-pay" class and consequently falls into the collector's hands. The treatment called for, however, is identical with the preliminary steps in the next, or slow-pay, class with the possible exception that on account of his past good record he should be accorded, with somewhat less reluctance, the moderate temporary concession he may need. Should he require more than nominal assistance, or, having had one extension, should he ask a second, he should be checked up carefully with a view to detecting a possible development of hazard in the account which may be evaded by special handling in the early stages of attention.

DIFFICULT ACCOUNTS—SLOW BUT GOOD

This is the class of debtors around which the entire collection problem revolves. Happily, in numbers it is far outstripped by the "discounters" and "prompt pay," though in the aggregate its number is legion. This is the class that while meriting least consideration receives the most. Occasionally, it is true, a case develops where a good business man with normal capital miscalculates, or meets with a misfortune, and actually merits

assistance and leniency from his creditors. Such cases, however; when compared with the multitude of delinquents, are unimportant. Furthermore, the assistance required is only moderate and temporary.

The chronic slow pay we have with us always. He it is who reports short crops, slack employment, and the five or six other unfavorable conditions that serve as excuses for his delinquency. He probably does not know that his neighbor in the next block, serving exactly the same class of trade with the same merchandise, is discounting his bills or paying promptly at maturity. Prolific in excuses and explanations as he is, he would be at a loss, if he could see his statement of resources and liabilities in parallel columns with that of his neighbor's to explain why, with his showing better in all essentials than his neighbor's, he must beg or take extra time while the neighbor does not ask or need any assistance. He no doubt would become incensed should the real answer be suggested—"your neighbor is a good business man while you fall far short of the qualification."

The collector should understand these facts. He should know that practically all losses develop from the ranks of the slow pay. He should realize, or, if he doubts, he should prove by checking back, that the account that has been prompt and falls behind for a temporary reason does not run slow very long, but recovers, or, becoming chronic, develops some vital weakness likely to continue to the point of producing failure. He should know that chronic slow pay gives the lie to a good financial statement no matter how honestly rendered. The chronic slow pay generally does make a fair statement, and frequently a good one. If he did not, his credit would probably have been long since withdrawn and he out of business, possibly by the failure route.

Here is where the work of the collector should supplement that of the credit man. If an account starts slow or develops slow, and particularly if slowness is or becomes chronic, the collector should find out why. If the answer is inherent weakness or impaired vitality, further credit should be refused, as continued credit is a gamble pure and simple, a bet that another account can be worked out before the crash comes. Of prior importance is the collection of the present account. The collector fully advised of a vital weakness, its cause, and what is left from which to realize, can lay his plans intelligently and make progress towards realization and save an account which would otherwise result in a loss.

THE BAD ACCOUNT

The bad account, barring an occasional exception, develops from the slow-pay account. The first suggestion that the account is bad is delinquency. Suspicion is driven towards certainty by continued delinquency. Even the final proof of worthlessness is delinquency continued until all resource from which payment may be expected has been exhausted. Salvage from bad accounts depends on early recognition of the facts followed by intelligent methods of liquidation.

TEST QUESTIONS

1. What is meant by wholesale accounts?
2. Would the account of a newspaper publisher with a news stand be considered a wholesale account?
3. What are some of the characteristics of wholesale accounts that have an important bearing on collection problems?
4. What are the four classes of accounts recognized by collection men?

5. Explain what is meant by discounts. How are such accounts related to the work of a collector?

6. In what manner do prompt-payment accounts differ from discount accounts from the collector's standpoint?

7. What are some of the characteristics of the chronic slow-pay debtor?

8. Describe the bad account as a collector sees the problem.

CHAPTER IX

COLLECTING SLOW ACCOUNTS

Any account running past maturity merits the collector's attention. Preliminary action though simple and entirely routine should be prompt. The expectant or restless state of mind incident to the maturity, should be considered and stimulated by promptly calling the debtor's attention to his delinquency the moment it becomes apparent. The debtor may have other maturities falling due at the same time and be ready to pay a part, but not all, of these maturities. In such case he is apt to accept the first invitation and, indeed, may be waiting to determine the quarter in which his delinquency will attract least attention, as indicated by the creditor's own neglect with deliberate intention of letting that account run. Comparison of the experiences of many creditors with the same slow-pay customer shows that almost invariably one or a few have found the account prompt and satisfactory, while, with all the others, slowness to a widely variant degree has been continuous; this, regardless of the size of the account or the nature of the commodity. The debtor has actually, though probably unconsciously, adjusted his payments according to the insistency and persistency of the collector's methods without regard to the relative delinquency of the accounts.

INITIAL PROCEDURE

Reminder before maturity; indirect demand after maturity.

With mercantile establishments extending credit through open accounts, the practice of mailing to each debtor a regular statement at the close of each month so long as unpaid items due or not due remain, has become general, in fact, almost universal. Such statements vary in form or matter to some extent, but all embody the essential features: date of issue, name and address of debtor, name and address of creditor, dates and amounts of items, and terms. Reaching a debtor before maturity of any of the items, they serve to remind him of the account and to give him a chance to check with regard to correctness and to prepare for payment at maturity if special preparation is necessary.

Before maturity of items, statements are not intended as duns and are seldom so construed. After maturity, they serve as an indirect demand for payment. The force of the demand may be augmented by a printed notice on the statement form requesting payment of matured items or advising that draft will be drawn for items not paid at maturity. Where such printed notice is not embodied in the statement form, it is customary to use a rubber stamp on the face of the statement, giving notice of date and amount of draft to be made in case payment is not made prior to such date.

RECORD AND TICKLER FOR FOLLOW-UP

Where the number of accounts is small, the practice of following direct from the ledger is very general. This practice results, however, almost invariably in haphazard handling at irregular intervals and in periodical neglect.

Collection routine is made secondary to other duties of the individual responsible therefor. This neglect occurs usually when business is active, and unless returns from collections keep pace with the turnover, unnecessary capital must be employed. Then, too, neglected collections become hard collections, and customers fall into bad habits which affect future business. For these reasons it is desirable and profitable that a tickler system supplemental to the ledger, and covering matured accounts only, be employed and that such system be followed as regularly with few accounts as with many.

It is desirable, of course, to avoid duplication of records and also to reduce rather than increase the volume of clerical routine. The tickler system, however, can be simplified so that it will require all told less labor and time than would be consumed in scanning accounts not due, in following direct from the ledger, and consequently requiring no collection attention. Collection managers in many highly systemized offices make up cards on each delinquent account, entering thereon details of amounts, maturities, etc., and either check these regularly against ledgers or enter payments thereon from daily cash record. This system entails considerable clerical labor and serves no good end so far as following collections is concerned that cannot be secured in a more simple and less laborious manner.

The writer recommends as follows: In writing monthly statements use carbon sheets, making statements in duplicate. Mail the original to the debtor and retain the carbon copy for collector's use. Separate the carbon copies into lots according to maturities. In the first lot, place only those that contain items that mature during the current month. In the second lot, place those that contain items that matured prior to the current month.

In the third and last lot, discard all statements which contain only items maturing later than the current month.

Distribute lot one into a daily tickler box or file so that carbon statements may come out at such time as the first maturing item thereon may require attention. This should usually be three to five days later than the first maturity, the intent being to allow sufficient time for receipt of remittance if mailed on the day of the maturity or on the first succeeding day. Premature action may incense the debtor, but, on the other hand, it is desirable to preserve the psychological advantage existing at the time of maturity.

The second lot of carbon statements containing items that have matured prior to the current month (past dues), as well as possible subsequent items, should be attached to the current correspondence file pertaining to each. These files should be kept in numerical rotation as per ledger folios as shown on carbon statements, or alphabetically.

The collection files as worked out by payments should be transferred to the permanent files of the office in order to keep in current files unfinished items only. If the number of such unfinished file budgets is small, no special tickler is necessary, as it will require only a little time three or four times a month to handle them all over and to give consideration to such as may require attention. If the number of accounts in correspondence is large, a tickler will be found to be a labor-saver and at the same time will more logically distribute for current attention, since it brings out each day only the names that are due for further action.

For a tickler take small sheets or slips of paper and fasten together at upper end by one metal fastener. Beginning with the top sheet, stamp or write at the

bottom of each sheet dates of successive business days, dating forward say thirty days. As letters are written (or signed), or other action taken, estimate a logical time by which returns should be in or further action taken, then turn to the tickler sheet bearing that date and enter the folio number of the account under consideration; or, if current files are kept in alphabetical rotation, write in addition to the folio number, the name in abbreviated form on the tickler sheet. By use of this simple tickler, which requires practically no clerical labor, a stenographer or even the office boy can place before the collector all budgets due for attention and the time of no one need be wasted in handling or looking over cases set for later dates. See Figure 5.

CORRESPONDENCE FILES

The foundation of a correspondence file is the first carbon statement issuing after an account or item matures. The file should be built from the bottom up, with the exception that the statement should be kept on the top for convenience in checking. This enables the correspondent in dictating to glance at the last letter and build up pressure logically.

DAILY COLLECTION ROUTINE

Each day take from the tickler box carbon statements filed for attention on that date. Also, bring from unfinished correspondence files budgets as per correspondence tickler sheet for that day. Check statements by the ledger, cash receipts for the day having been posted. Destroy statements of the current month if paid in full, or replace in the tickler box at proper date for next maturity if other items mature later that month.

Transfer to "finished" file the correspondence on past dues paid since previous checking.

SIGHT DRAFTS

Notice of maturity through statement with advice of draft, either in general or in specific terms, printed, stamped, or written on statement, having failed to induce payment, next in order comes the draft at sight or on demand. A draft as used in collections, is a written order by the creditor on the debtor to pay to a third party (generally a bank) the amount specified. This method of collecting makes a bank the collector of the account. The formality, publicity, and significance incident to such presentation often make it very effective. This advantage is somewhat offset by the fact that banks make no strenuous efforts to collect such drafts. They may write to the debtor asking him to call with regard to the draft or present it through a messenger. If it is not paid within a few days, the bank returns it with such brief notations as "No reply," "Refused," or "Not found." A specimen sight draft is presented in Figure 6.

Drafts are usually payable at sight or on presentation by the party in whose favor they are drawn, but they may be drawn payable a specific number of days after presentation, in which case they are called "time drafts." The time draft is seldom used in connection with the collection of past-due accounts. When so used it is presented promptly for acceptance, with the acceptance and maturity written across the face to be signed by the drawee. If the time to run is only a few days, it is customary for the bank to hold for payment, otherwise it is returned to the drawer who will henceforth treat it as a note. An accepted draft has the same standing and

NO PROTEST.
Take this off before presenting.

STATEMENT.	
Misc.	
"	
"	
"	



\$ _____ Chicago: _____ 191 _____

At sight, pay to the order of ourselves

Dollars

With Exchange and Collection Charges.

To: *American Steel & Wire Company.*

No. _____

Treasurer

Fig. 6.—A Sight Draft

201	TREASURY DEPARTMENT	Ser 10 22 14
HARMONY & COMPANY		
208 SOUTH LA SALLE STREET		
CHICAGO, ILL., _____ 191_____		
GENTLEMEN:—		
Enclosed we hand you for collection and returns our		
Draft } Note }	on _____	
of _____		
in amount \$ _____		
<u>With Exchange and Collection Charges</u>		
Account No. _____	Yours truly J. R THOMAS Treasurer	

Account No. _____

PLEASE DETACH

AND RETURN WITH REMITTANCE TO

HARMONY & COMPANY

208 SOUTH LA SALLE STREET

CHICAGO, ILL.

FIG. 7.—Advice Form Used in Connection with Drafts

use as a note of hand and is subject to the same treatment in its use and collection.

Drafts on customers in other towns may be deposited for collection with the drawer's own bank or may be sent for collection and returns to a bank in the customer's vicinity. In either case a record for follow-up is necessary, because the mailing of a draft does not relieve the collection department of any responsibility in the account. A memo of the date and the amount of draft on the carbon statement put forward in the tickler box, and a carbon copy of the letter of advice, if sent direct, or of the deposit sheet, if deposited, is sufficient. Figure 7 shows an advice form that may be used in sending drafts for collection.

EXCEPTIONS TO THE USE OF DRAFTS

Drafts should not be drawn on railroad or other corporations known to pay by voucher nor on customers who have specified a preference for demand in other form. Such accounts should pass immediately from defaulted statement into correspondence.

Where a small item in an account is due for a draft and a larger item will mature within a few days, it is better to defer the draft until the larger item matures and then to combine both items in one draft.

COLLECTION CORRESPONDENCE—FIRST STEPS

When drafts are returned by a bank or when not returned promptly, and when carbon statements from the tickler upon being rechecked still show items unpaid, the collector's work has passed from routine to the beginning of special attention through correspondence.

First letters, however, need be little more than polite reminders. If the draft has been returned, that fact, and

reason if stated by the bank, should be commented on and the expectation of a prompt remittance expressed. If the draft has not been returned, the debtor should be requested to call at the bank and pay or, if more convenient, to remit direct. At the same time a letter should be written to the bank requesting it to present the draft again and, if not paid, return, giving reasons for non-payment. The carbon statement should be attached to the file copies of these first letters and an entry for future following should be made on the correspondence tickler sheet.

Up to this point the treatment may well be along general lines, some consideration, of course, being given to the comparative size of items involved or to other features apparent within the account itself. From this stage the correspondence should be individualized and fitted to a plan carefully evolved from a study of the debtor's present financial condition and environment.

GENERAL PRINCIPLES

A few general rules and principles apply to all the correspondence and should never be overlooked. *Politeness* is essential. Start mildly, gradually work from request to insistence and then to demand, but always in language which will give the most sensitive no ground for offense.

Explicitness is very important. State definitely the date, the amount, and the maturity, not only in the first letter, but throughout the correspondence, and let the reference to overdue time be *cumulatively conspicuous*. Let there be no indication of uncertainty. If at any time apologetic language be employed, let it be for the necessity of the demand, not for the demand itself.

COLLECTOR'S ATTITUDE

In requesting, demanding, or enforcing action on an account, the collector should assume an impersonal attitude, that of an instrument driven by the necessity of the situation. In extending favors, he should resume the personal attitude, granting favors from those in authority (real or assumed), or from the standpoint of personal intercession with those in authority.

TEST QUESTIONS

1. Explain why promptness and timeliness in presenting a statement to a slow-pay customer are important from the collector's standpoint.

2. What is the nature of statements mailed to debtors at regular periodic times?

3. What notice is often attached in regard to the use of drafts?

4. When may slow-pay accounts be followed up directly from the ledger? What are the chief objections to such a method of handling accounts?

5. Explain the use of a tickler for follow-up work on delinquent accounts.

6. Explain the daily collection routine in handling accounts.

7. Explain the use of sight drafts in collection work.

8. What are the advantages and the limitations in the use of sight drafts?

9. In what cases should sight drafts not be used?

10. At what point does it become necessary to individualize delinquent accounts?

11. What is meant by the statement, "Let the reference to overdue time be cumulatively conspicuous"?

CHAPTER X

ACTUAL PROCEDURE AND PRACTICE

Examples should serve only as illustrations for the application of principles. They are to be taken as guides, not as models, for every case. With this thought in view, the following procedure is given. Much discussion has been omitted because the reader of this treatise and the practical collector will have no trouble in understanding each step.

STATEMENT

The first step in the procedure consists in mailing the regular monthly statement shown in Figure 8. The purpose and nature of this statement have already been explained.

A carbon copy of this statement dated Nov. 30 was placed in the tickler box to come out Dec. 17, five days after maturity of the first item.

DRAFT

The carbon statement was checked Dec. 17 and found unpaid. The original statement, mailed Nov. 30, contained notice that draft would be drawn Dec. 17 for \$127.43. Draft was drawn accordingly and sent to the First National Bank of Hartwell, Mo., for collection. Draft was returned indorsed "Cannot pay now."

SUBSEQUENT CORRESPONDENCE

FIRST LETTER

Chicago, Ill., Dec. 24, 1914

*James Cooper & Co.,
Hartwell, Mo.*

GENTLEMEN :

On Dec. 17 in accordance with previous notice, we made draft on you through the First National Bank of your city for \$127.43, the amount of invoice of Oct. 12, now some twelve days overdue. Bank has returned draft indorsed "Cannot pay now."

Trusting this report is in error and inviting your kind attention, we are

Yours truly,

HARMONY & COMPANY

Entered on tickler sheet dated Jan. 8, 1915.

In the meantime invoice of Dec. 5 for \$175.73 has been entered in the account.

Statement mailed Dec. 31, 1914, stamped "Past Due."

Out Jan. 8, checked, still unpaid.

SECOND LETTER

Chicago, Ill., Jan. 8, 1915

*James Cooper & Co.,
Hartwell, Mo.*

GENTLEMEN :

On Dec. 24, we wrote you inviting your polite attention to your invoice of Oct. 12, \$127.43, now nearly 30 days past due. Today we find the item still unpaid, and notice that in the meantime another bill, viz., Oct. 26, \$324.47, has matured. Total past due, \$451.87.

Permit us to expect remittance to cover these two items by return mail, and greatly oblige.

Yours truly,

HARMONY & COMPANY

Entered in tickler 10 days ahead.

Out Jan. 18, checked, no change.

THIRD LETTER

Chicago, Ill., Jan. 18, 1915

*James Cooper & Co.,
Hartwell, Mo.*

GENTLEMEN:

There stand in your account today past-due items:

Oct. 12, due Dec. 12, \$127.43

26, due Dec. 26, 324.47

Nov. 10, due Jan. 10, 223.59

Total past due...\$675.49

We drew draft on you for the first-mentioned item and have since written you two letters: viz., Dec. 24 and Jan. 8.

We have borne your inattention with patience, but must now kindly insist on immediate payment.

Yours truly,

HARMONY & COMPANY

By J. Weston

Treasurer

As a statement goes out Jan. 31 stamped "Past Due" and the last item in the account matures Feb. 5, a tickler entry is made for Feb. 6.

Out Feb. 6, checked, no change.

FOURTH LETTER

Chicago, Ill., Feb. 6, 1915

*James Cooper & Co.,
Hartwell, Mo.*

GENTLEMEN :

In checking our accounts today we are much surprised to find yours still unpaid. The oldest item is now almost 60 days past due and other items which have matured since bring the total up to \$851.22.

We have written numerous letters to none of which you have accorded us the courtesy of a reply. We can imagine reasons that might account for non-payment but can conceive of nothing to account for not hearing from you.

In any event, we have now reached a point where we must kindly insist on payment without further delay.

Yours truly,

HARMONY & COMPANY

By: J. Weston

Treasurer

Entered in tickler for Feb. 16.

Out 16, checked, no change, no response.

Sent telegram (Fig. 9) Feb. 16.

Enter tickler for Feb. 21.

Out 21, still unpaid, no response.

Treatment up to the telegram has been based on the assumption that the credit of this firm is good and that no special hazard was in evidence when the business was accepted. The failure to answer letters might have been the result of carelessness, the dislike for making an excuse where payment is expected, or for various other reasons. But failure to respond to the telegram suggests something vitally wrong. The effect of the telegram is not in the demand, but in its psychological effect. It suggests urgency or the exhaustion of patience. It gen-

erally results in payment if payment is possible; if momentarily impossible, in explanations and promises for early attention.

The telegram should be used only when letters are ignored or when definite promises have been repeatedly broken. Under such conditions no offense can be taken. If the debtor complains of such usage, he should be

WESTERN UNION		Form 260
RECEIVED NO.	TIME FILED	CHECK
 TELEGRAM THEO. N. VAIL, PRESIDENT		
SEND the following Telegram, subject to the terms on back hereof, which are hereby agreed to Chicago, Ill., Feb. 16, 1915 James Cooper & Co., Hartwell, Mo. Must insist immediate payment past due account. Answer. HARMONY & COMPANY <u>COLLECT</u>		

FIG. 9.—A Collection Telegram

answered by a reminder that he had paid no attention to letters, and that a telegram had been sent in preference to giving his account to an attorney, which was the only logical alternative. Proper precaution should be exercised in all correspondence whether by letter or telegram to avoid committing the legal offenses of blackmail or libel.

This stage having been reached, it is in order to make a new and careful investigation as to the customer's condition, if indeed such action has not already been taken.

If a salesman is in the vicinity, he should be advised and requested to collect or report. Inquiry as to the debtor's treatment of other creditors should be made. While this is being done, the persistency of the collection department should continue in a letter somewhat as follows:

FIFTH LETTER

Chicago, Ill., Feb. 21, 1915

*James Cooper & Co.,
Hartwell, Mo.*

GENTLEMEN:

Not having had a response to any of our numerous letters relative to your long overdue account for \$851.22, we wired you on Feb. 16 as follows: "Must insist immediate payment past-due account. Answer."

You have ignored the telegram as well as the letters. We believe you will agree that we have not only been liberal, but that we have more than done our part, and that we have extended more than due courtesy.

Under these circumstances you must realize that we cannot permit the matter to rest in this shape and that unless immediate payment is made we shall be compelled to hand your account to an attorney with instructions to protect our interests by taking such action as may be necessary to secure payment.

You realize, of course, that a report of such action would reflect seriously on your credit standing, and we sincerely hope that in your own interest you will not force us to this extreme.

We will hold in abeyance for your reply and remittance not later than March 1.

Yours truly,

HARMONY & COMPANY

By J. Weston

Treasurer

Tickler for March 1.

By that date some report should have been received from interchange inquiries and possibly from salesman. Also, if the customer has any regard for his credit, some reply should have been received from him. If so, the next step will of course be modified or at least the giving of the account to an attorney will be delayed until another letter has been written. Short of some proposition reasonably satisfactory and plausible after considering all recently secured information, the next best move is to visit the customer at his place of business or to send a good adjuster to see him.

PERSONAL CALL

This of course is expensive, more so indeed than would be justifiable for accounts in general. The amount involved, however, is sufficient to justify the exercise of every precaution to avoid precipitating a failure, at least until every reasonable effort towards liquidation has been exhausted. Besides, aggravated as this case is from every visible standpoint, it may still be possible to clear it up on the ground and to develop some basis for continuing a satisfactory account. A change of front from giving to an attorney to a personal call can easily be justified.

This collection has been developed consistently and rapidly, the correspondence having been altogether one sided. Of a hundred similar cases, probably ninety would have been closed by payment after some one of the letters, of the remaining ten, five, or six would have paid all or part after telegram; and, unless actual insolvency exists, the others would have been paid on receipt of the fifth letter. Had the debtor answered any letter,

the succeeding letters would have been modified to meet the new element or elements injected by what the debtor had said. Also, a review of the credit file and record, which should have been made about the third letter, might have indicated some special turn or suggestion other than continued and increasing pressure.

Results, however, in the handling of the ordinary commercial account where no special hazard has become apparent are more dependent on a building-up of increasing pressure at consistent intervals than on the best efforts at finding an excuse and fitting the correspondence thereto. Indeed, where the debtor answers letters setting up excuses, it is usually the case that the excess time already taken is full concession to the situation, at least so far as it overruns what should have been foreseen and provided for when the liability was incurred.

There are cases where conditions that could not reasonably have been expected arise. These should be treated according to their merits, erring on the side of liberality rather than otherwise, unless the situation is so acute and far gone that nothing short of final liquidation is possible. The quicker a wind-up is accomplished, the better for all concerned. Such cases, however, are exceptions.

The collector of commercial accounts must not overlook these exceptions, but his work is to a far greater extent with the chronic slow pay, the customer constitutionally and temperamentally slow, the one just as certainly delinquent on an account on terms of one year as on terms of sixty days. He may be selling goods in the spring and summer to his trade on fall terms and be taking in no more than is necessary to pay current expenses, at the same time to recognize this with such debtors on a July maturity and to extend the time to

October would mean collection after a logically built-up pressure beginning with October, whereas if this pressure had been started in July, collection could have been effected in October. The only practical difference in handling these chronics in the season when the collector knows they are getting in very little money and in the season of active returns, is that in the slack season suit or threat of suit should be deferred.

These are the extreme cases, but an understanding and a facility in handling such make the milder ones easy. Perhaps in the ultimate analysis these "chronics" should not be in business, or should be denied credit altogether, which would really mean the same, and, in fact, they nearly all do sooner or later fail. At the same time there are many of these that have dragged along for years, and the impression is prevalent that it would be suicidal to cut them off so long as ultimate collection is reasonably assured. The logical procedure, therefore, is to recognize them and deal with them according to their merits. They are not thin skinned; rather they have become callous from constant prodding. True, they sometimes squirm a little, or even growl, but that does not really mean a hurt, and does not affect future relations unless a sensitive salesman takes it to heart and helps them work up a case of resentment.

A good collector, having the welfare of his business always in mind, is of course as anxious to conserve the good-will of desirable customers as is any salesman and will not unnecessarily take such action as will result in withdrawal of desirable business. A customer may drag to such an extent that his account is no longer desirable, or he may infer from some necessarily sharp letter in connection with the collection of his last account that further credit cannot be expected even when no

such threat has been made or implied, and, indeed, where there has been no such intent, the salesman consequently has had no advice to avoid selling or to sell for cash. Under such circumstances it frequently occurs that when a salesman calls he is met by a customer with a much injured air on account of alleged harsh or unfair treatment by the collection department. The customer may even threaten to place his business in the future where it will be appreciated, where he can expect decent treatment.

Of two possible lines of action, the easier is too frequently taken by the salesman, who naturally is keen for an order; viz., he expresses regret and apologizes by laying the blame on routine or irresponsible clerks and assures the customer that the letters he objected to really mean nothing and winds up by assuring him that he, the salesman, will personally undertake to see that there will be no repetition. This plan of handling leaves the customer in a frame of mind that is nearly sure to ultimately result in the necessity for collection treatment that *will* drive his business to other quarters, or, if tendered, to its being declined.

The other and better position for the salesman to take is to ask to see the objectionable correspondence and develop the exact facts, and from these facts defend the office and point out in diplomatic terms what the customer might have done to avoid the unpleasantness. Then, if he gets an order, there is less likelihood of necessity for repeating previous harshness unless, indeed, the customer is incorrigible. This treatment also enables the salesman to discover the possible cases where customers are written unwarranted letters and to bring these to the attention of his principals. The salesman should work *for* his firm in every relationship.

CO-OPERATION OF COLLECTORS AND SALESMEN

The foregoing suggests an early getting-together of the collector and the salesman. The salesman should be advised of all past-due accounts in his territory. In the earlier stages of the delinquency a simple monthly list showing name, address, amount delinquent, and maturity date is all that is required. From this, the salesman has an opportunity to take the matter up casually with his customer and develop the case on its merits and make such report as will insure intelligent handling by the collector. When the delinquency has continued to a point where treatment more drastic than ordinary becomes necessary, copies of letters written should be sent to the salesman with request for advice, information, or assistance if he sees a way by which he from his personal acquaintance with the customer and his circumstances can be of service. Then, before such action is resorted to as will make it undesirable to accept new business from him, the salesman should be notified of such impending action and given an opportunity to make the collection and save his customer for future business. This method of co-operation results in the full acquiescence of the salesman when drastic action becomes necessary, as well as the avoidance in many cases of harshness by the collector.

Teamwork of departments is always profitable, but nowhere does it count for more than between the collector and the salesman. At the same time it is desirable to avoid placing the burden of collections unnecessarily on the salesman. So long as an account can be handled by ordinary correspondence the salesman should not be asked to deviate from his regular course. This is particularly true if the customer is one of the multitude

of chronic slow pays considered safe. This class is accustomed to sharp letters and there is little danger of driving it away so long as the account is worth bothering with.

RETAIL ACCOUNTS

The same broad, underlying principles, personal and psychological, as have been outlined in the consideration of wholesale accounts, are pertinent to, and applicable in, the collection of retail accounts. On account, however, of the difference in the use of the commodity represented, the basis for the credit, and the source from which funds for payment must be derived, a somewhat different practice with regard to detail of procedure becomes necessary.

The commodity represented in the wholesale account is purchased for resale at a profit, or for conversion into a more highly finished product, then to be sold at a profit over the original cost and on the cost of conversion as well.

The commodity of the retail account goes into actual consumption or into use from which the value rapidly deteriorates.

The basis for the wholesale credit is the progress of, and investment in, the business, plus the value added by the commodity of the account itself.

The basis for retail credit lies entirely outside the use to which the commodity of the account is put. The means for payment of the wholesale account can be predicated to a degree on the resale, or conversion and sale, of the commodity of the account. On the other hand, payment of a retail account is dependent on personal income, earning power, or accumulated resource.

Notwithstanding these marked differences, preliminary

routine is practically the same, and likewise success in collecting is dependent on learning all the facts and fitting the treatment to the facts. The principles of close and prompt following of all overdue accounts and of a definite understanding regarding terms of payment shall definitely guide all procedure.

Review the information on which the credit was extended, and revise and bring down to date. If credit was based on security, exert reasonable effort to collect otherwise, then proceed against the security. If through inadvertence, bad judgment, or carelessness, a large account has been permitted where only a small one was justifiable, do not make the mistake of paralyzing the debtor by demanding a payment of five hundred dollars when you know he never had over fifty dollars at a time in his life. It is better to coax twenty-five dollar payments and keep them coming regularly. An arrangement for piecemeal or instalment collections under such circumstances is good business. Payments should fall due when wages are paid or when other circumstances place money in the hands of the debtor.

In short, every account, wholesale or retail, that runs beyond the stage of routine treatment, should be considered as a separate, a different, problem for solution. First, the collector should be sure of all the facts and figures; then, if an old rule is applicable, work it out accordingly. If he finds, however, that no rule of his practice, or within his knowledge, applies, he must set himself the task of evolving a rule to fit the case in hand.

Frequently, perhaps generally, the basis for retail credit is less tangible than that for wholesale credit. On the other hand, the retail debtor is generally near at hand so that he may be reached easily and at small

expense for a personal interview; consequently the disadvantage in the basis of credit is offset by the opportunity for advantageous and intelligent handling.

The advantage of personal contact should never be lost sight of and wherever amount, condition, or opportunity warrants, the collector should work by personal calls in either wholesale or retail accounts.

INDUCEMENTS—KNACKS—TRICKS

Aside from cash discounts, which have served their intent; viz., the elimination of time for a money consideration, before the account has become of interest to the collector, the effecting of collection by concessions, or allowances, is unethical and pernicious and should not be countenanced. Of course, if the debtor has a legitimate claim, or, even if he only thinks he has and is honest in his belief, such claim should receive careful consideration and, if its correctness is established, it should be allowed. If a claim is of such nature as to make it impossible to determine definitely with regard to its merits, it is permissible to make reasonable allowance for probable correctness if it is made in evident good faith and not as a mere pretext in order to secure an unwarranted rebate. Beyond such legitimate concessions, it is better to lose the entire account than establish precedent for a practice which, if it became habitual, could easily be construed into an admission of loaded charges for the purpose of establishing a basis for purchasing payment.

Experienced collectors generally develop from their practice little knacks, or cuts, from which they secure satisfactory results, such as awkward calls, writing to friends, letter or call from the boss, telephone reminder on the day when the amount falls due, and numerous

other schemes that sometimes prove effective. It is usually a question of measuring wits against wits. These practices, however, must be the outgrowth of the peculiar personality of the collector applied to a quick conception of the idiosyncrasies of the debtor and his resource, together with an understanding of the general situation and the popular view as to the prosperity and the business activity of the moment and for the immediate future. The success attributed to such knacks, or turns, should, without doubt, be credited to the greater confidence they give to their originators, rather than to their inherent efficacy.

Difficult collections, too, are sometimes made by means of decoys, surprises, tricks; and while it is a grave question as to whether one is ever justified in departing from the straightforward in any business transaction, it is difficult to condemn the meeting and the overthrow of dishonest intent or practice by any available means. In any event, the cases requiring such procedure to insure success are rare; and their solution depends on discovering an opening, never twice alike, and an immediate pushing of such opportunity, or advantage. Such cases, however, do not fall within rules, but are exceptions, the solution of which depends altogether on the personal ingenuity of the collector.

TEST QUESTIONS

1. What purpose do practical examples and illustrations serve in the study of collection problems?
2. In the example given, why was the draft drawn December 17 for \$127.43 only, when Jas. Cooper & Co. were indebted to Harmony & Company for several times that amount?
3. What is the purpose of the first follow-up letter?

4. In what regards does the second letter differ from the first?

5. Analyze the various points of progression in these successive letters.

6. How can telegrams be used in collecting accounts, and what is their special value?

7. What precautions are to be observed in the use of telegrams?

8. When is a personal call justifiable?

9. Explain how the salesman can co-operate with the collection department and how he may weaken the work of the collection department in collecting delinquent accounts.

10. How do the foregoing principles apply to the collection of retail accounts?

11. Explain the use and limitations of special inducements and tricks in collection work.

CHAPTER XI

CO-OPERATIVE COLLECTIONS

OBJECT

After a collection has been worked through all ordinary routine without result, an investigation frequently discloses a case where there are sufficient assets, if properly handled, to pay out, or largely so, at any rate. Occasionally, plans can be devised by which the indebtedness may be worked out so as to leave a live, going business. In other cases, it is impossible to pay at present or, if anything is paid to one creditor, it is at the expense of an injustice to another. A suit for enforcement of the collection would compel other creditors to take action to prevent a preference; this action usually takes the form of a petition in bankruptcy, filed either by the debtor himself, or by three or more creditors.

AVOID RECEIVERSHIP AND BANKRUPTCY

Liquidation through bankruptcy proceedings is expensive and affords no very elastic opportunity to take advantage of seasons or economic conditions in converting merchandise or collecting outstandings, and, consequently, the net amount available for creditors is reduced to a point resulting in heavy, if not total, loss. On the other hand, a gradual economical liquidation of the assets without fees for lawyers, receivers, trustees, and other expenses incident to bankruptcy processes may result in considerable advantage to creditors.

If a condition of insolvency or serious embarrassment is discovered in time, a meeting of creditors should be held and arrangements entered into for a liquidation by or under the direction of a committee of the creditors for the pro rata benefit of all. The honest debtor can always be counted on to co-operate to the fullest in furthering such liquidation, but to what extent his services can profitably be used depends largely on the state of the case and the reasons for the embarrassment. If assets are ample and the debtor is merely tied up temporarily on account of some unforeseen contingency, all that may be necessary is for the creditors to agree to a uniform extension and leave it to the debtor alone, or under a very general supervision of a creditor's committee, to work it out.

If, on the other hand, the business is suffering on account of some inherent weakness or on account of lack of business ability or intelligence of the debtor, it is better to secure an equitable assignment of all assets and relieve the debtor from any further participation.

If the difficulty is lack of ability, the debtor may not realize that he has failed and may demur at a total withdrawal. Under such a condition, he is very likely to have rosy views of being able to recover if given an opportunity to do so, and will agree to a moderate limit of extension and to retire if by the stipulated time he has failed to show certain results. If the assets are of a nature and an amount to justify some expense in conservation, a contract may be entered into giving the debtor his chance under proper surveillance and at the same time transferring the assets for the benefit of the creditors at the expiration of the extension.

It is desirable that the extension contract also cover the transfer, otherwise the debtor having developed some

other reason may insist on further indulgence. Conversely, some of the creditors having lost patience will probably start proceedings to force liquidation rather than spend more time and money in an effort at co-operative adjustment.

Agreements for general extension under creditors' supervision, whether embodying terms for complete liquidation or not, should be drawn with great care. It is necessary to safeguard the interests of the debtor and all the creditors and particularly to protect the committee from personal liability. Conditions are different in different cases; also, legal requirements in different states vary widely. For these reasons, no general form for such agreements is practicable, and on account of the legal phase a special agreement, covering the conditions as they exist, should be drafted under the direction of a lawyer for each case.

Usually, some claimants will be represented in the creditors' meeting by local lawyers, who for a nominal general fee, in addition to their commission on the claims in their hands, will be glad to assume responsibility as to legal forms and requirements. Such employment of the lawyers interested tends also, for obvious reasons, to safeguard against other legal processes, which might result in reduced returns to the creditors.

ELEMENTS OF SUCCESSFUL CO-OPERATIVE COLLECTIONS

The elements essential to profitable co-operative collection or liquidation are:

(1) Getting into the case before several claims have been placed with attorneys for pressure. The lawyer's training tends to develop not only respect but also preference for court processes. Again, there is a technical and tactical advantage to the lawyer personally, if not to

his client, in his representing the petitioning creditors in bankruptcy action. If other attorneys have claims, he can gain this advantage and excuse himself to any protesting creditor by saying that bankruptcy was inevitable and that if he had not filed the petition someone else would have done so.

(2) There must be merchantable and collectible assets in such amount as to make it worth while for all the creditors to defer their claims for a time and to justify at least a committee of the creditors in giving some time to the liquidation. The committee is usually made up of the representatives of the largest creditors; one member at least, if possible, should be a resident in the debtor's vicinity.

(3) If the case is one for final liquidation or one in which for any reason the debtor is not a proper party to conduct the business, there must be some available individual of proper qualifications willing to take charge under the committee for such rate of compensation as may be justified by the conditions and the volume and the value of the assets.

TEST QUESTIONS

1. What is meant by co-operative collections?
2. Why should the collector strive to avoid receivership and bankruptcy?
3. When is a collection man warranted in forcing receivership or bankruptcy?
4. What can a creditors' committee do in helping to straighten out the entangled affairs of a debtor?
5. What are some of the special points to observe in the contract under which such a committee is organized?
6. What are the three elements of successful co-operative collections?

CHAPTER XII

COLLECTION BY LEGAL PROCESS

SUIT ON THE DEBT

Collection by suit has already been referred to as a final step in the collection process. This method is effective when the debtor has property subject to execution. Even in some other cases debtors who possess no tangible assets nevertheless prefer not to have a judgment stand against them. Such debtors offer either to settle when the suit is instituted or to pay the judgment as soon as possible.

BANKRUPTCY PROCEEDINGS

After every reasonable effort has been exhausted by the collector, his agent, or attorney, to secure payment of an account or other claim without result, and where co-operative liquidation is not practicable, it is customary and proper to appeal to the courts for relief. Before the enactment of the National Bankruptcy Act it was possible under the laws of many of the states, not only to seize the property of the debtor and force it to sale for the benefit of a judgment creditor, but also for the creditor first beginning suit to secure a claim on the debtor's assets prior to the rights of other creditors. Under such conditions it was to be expected that the debtor's interest would receive little consideration, particularly if he were known to be involved to such an extent that his assets at forced sale would not be sufficient to pay all his obliga-

tions. Two elements of the situation tended to incite hasty action; viz., the advantage to be gained by the creditor first instituting suit and the advantage of the attorney representing such creditor.

The National Bankruptcy Act through its provisions for putting all creditors not previously clearly and equitably secured on a parity has reversed this tendency towards securing a preference, so that the present practice is to avoid bringing a debtor into court except as a last resort. In fact, suit for debt is now seldom resorted to unless there is a dispute as to amount, terms, or equity of a claim which the parties cannot settle between themselves, or unless a debtor with ample assets for some reason ignores the rights and the demands of the creditor until all patience is exhausted. In the latter instance, the debtor seldom permits the suit to proceed to judgment, although there are occasional debtors who will take advantage of a knowledge that immediate judgment is impossible on account of congested courts or other causes of unavoidable delay in order to secure the benefit of time to which they have no just claim.

While courts have their function and place in our commerce, they are resorted to by the prudent business man only after every other expedient has been exhausted. Where the services of a lawyer are required, he should be employed rather for his ability to avoid getting into court than for his keenness and acumen in the courtroom. Indeed, so far as collections are concerned, the employment of an attorney or the threat of court process is of doubtful propriety until it has become evident that nothing short of forcing by legal process will avail. On the other hand, it is doubtful economy to undertake to avoid the expense of employment of counsel when a collection is against the estate of a deceased debtor, or when the

estate is being administered by a receiver, or is in bankruptcy, or when for any reason there are special legal formalities of any nature to be complied with.

LEGAL PRECAUTIONS

Almost all business organizations of any considerable magnitude have legal connections, under which advice or direction on questions of law that may arise from day to day is obtainable. The collector should avail himself of this service whenever he has a collection that leads him out of the usual channels. In order, however, that he may judge as to when he should have legal advice, he should know what statutes are of particular interest in their bearing on his particular work. He should know in a general way that what is known as the "statute of limitations" sets a limit to the time in which claims of various kinds may be enforced by law. He should also know that this statute varies widely in different states and that in the same state it varies in its application to accounts, notes, and judgments, and he should inform himself of these variations. He should, likewise, inform himself with regard to statutes of fraud, statutes defining the status of accounts against infants, or against estates in which minor heirs are interested, or against a married woman. He should know in a general way of legal set-offs and statutory exemptions and of rights of lien and their limitations. He should read the Bankruptcy Act and fix in his mind its requirements, its limitations, its definitions. He should realize that this knowledge is of value in that it enables him to judge as to opportune times for invoking assistance, or in guarding against complications.

He should also know in a general way of such processes of law as garnishment, attachment, replevin, and that

fraudulent conveyances can be set aside, and that where stocks of merchandise are sold in bulk or otherwise than in regular course of trade, certain formalities for the protection of creditors should be complied with. In every case, however, where the application of these laws, or processes, becomes necessary, either offensively, or defensively, he should employ a lawyer with a view (1) to keeping out of court; or (2), if litigation is unavoidable, to coming into court with a clean case.

TEST QUESTIONS

1. What advantage is it to bring suit against a debtor who has no tangible assets in sight?

2. What were some of the disadvantages of the bankruptcy laws as they existed in the different states previous to the enactment of the National Bankruptcy Act?

3. Why was it often an advantage for a creditor to be the first one to file a suit?

4. What does the National Bankruptcy Act provide in regard to priority of rights in this respect?

5. What factors should be taken into consideration before resorting to legal actions?

6. What are some of the more common legal questions as related to debts with which a collector should be familiar?

CHAPTER XIII

COLLECTION AGENCIES

REASON FOR EXISTENCE

The extremely liberal and lavish extension of credit that has become prevalent under modern efforts towards expanding and extending business connections has naturally resulted in a multitude of slow, uncertain, even unwarranted accounts. At the same time the number and volume of such accounts, even in the offices of the largest extenders of credit, is seldom sufficient to justify the development of facilities or the employment of experts for the most expeditious and effective following of their collections. To meet these conditions what are known as "collection agencies" have been organized and developed.

METHODS OF WORK

These agencies undertake to provide facilities and channels for the efficient handling of hard collections either in their immediate vicinity or at points more or less remote, through established connections or correspondents or by the employment of traveling adjusters. They are usually owned and operated by a lawyer or firm of lawyers who by chance, preference, or necessity have undertaken to supplement their regular practice of the law by assuming the functions of expert collectors even where no question of law or its practice is involved. For collections away from home they make use of lists of

lawyers compiled and published either by themselves or by others similarly or more elaborately equipped, or by concerns compiling and publishing such lists for profit.

FEES CHARGED BY THESE AGENCIES

They undertake to effect collection for a fee or commission contingent on results, supplemented by a safeguard of special provision for compensation in case of suit or in localities where what is known as "bar rates" prevail. It is the custom, generally understood by all parties concerned, that the commissions or fees are to be divided between the agency forwarding, and the local attorney doing the work, on a basis of two-thirds to the attorney and one-third to the forwarding agency. It is customary to make no charge for services unless collection in part at least is effected, except in cases where suit is necessary and where an agreement for special compensation exists. Where an advance for costs and fees for officers of the court is required, it is customary for the creditor to provide for such an advance.

NATURE OF THEIR SERVICES

Such agencies abound in every jobbing and manufacturing center. Besides, there are many lawyers and firms of lawyers practicing the branch of their profession known as "commercial law" who devote a large part of their time and energies to collections, so that to all practical intents they are collection agencies. Among these are some of the best lawyers and likewise some of the worst shysters with all intermediate grades in the profession.

Unfortunately this practice affords great opportunity for unscrupulous, unethical measures with small opportunity for detection, consequently great care should be

exercised in the selection of the agency to whom business is entrusted.

Inasmuch as the function of a collection agency in most cases is merely the selecting of a local attorney and the forwarding of the claim, many collectors feel that they can, and should expect, better service from the local lawyer by dealing direct and thus relieving him of the necessity of passing one-third of his fee along to a forwarding agency. There is, however, another side to be considered; viz., the agency serving many patrons is more apt to have a number of claims from time to time at a given point than is a direct forwarder, so that the business of the agency even on a divided fee basis is more valuable to the local lawyer than is that of the direct forwarder. Then, too, the agency having probably had claims at the same point previously has had a better chance to try out the lawyers and to eliminate the ones whose services or methods are unsatisfactory.

PRECAUTIONS IN EMPLOYING AGENCIES

The great opportunity for unethical practice in connection with collection service, together with the multiplicity of agencies in excess of reasonable demand for such service, to say nothing of the difficulty in selecting local correspondents of ability and integrity and unbiased by their sympathies for their neighbor, the debtor, or by their own political or other local interests, constitutes without doubt the most difficult problem confronting the collector from day to day.

He may strike an agency either dishonest or so hard pressed that it takes a chance on using its client's money, or the honest and forehanded agency may forward to a local lawyer who collects and uses the money. In either case the discovery of defalcation, if made at all, is by

accident and possibly years after it occurred. Furthermore, when the collector does discover the shortage he has no recourse except civil action with a strong probability of a worthless judgment when secured. The agency, or the lawyer it selects, may see an opportunity for greater profit in framing a deal in bankruptcy or composition for the debtor direct without bankruptcy, and sacrifice the client's interest in furtherance of such a scheme.

The client so served has no, or at best doubtful, recourse and indeed seldom has ground for more than suspicion of irregularity. Even though such practice is only occasional, and not by any means general, in the aggregate it has an important bearing on average results and materially adds to the problems and perplexities with which the collector is surrounded.

Defalcations can be recovered (if discovered) by requiring bonds of indemnity, but no way has been found for overcoming the more subtle irregularities, except forcible condemnation and the withdrawal of business and confidence from the offenders. On account of the impossibility, regardless of good intent, of receiving even generally satisfactory service through agencies or from direct forwarding to local lawyers and from a feeling that an agency or a lawyer who does business on a contingent fee basis is compelled in his own interest to work along *destructive* rather than *constructive* lines, some wide extenders of credit maintain an organization of private adjusters. These adjusters work along constructive lines and, while immediate cash may not always be secured, the ultimate outcome is the best for their employers and is effected with the least possible disadvantage to the debtor. If the service of a lawyer is required, the adjuster has not only the advantage of

published lists, open or bonded, but has also the further advantage of being in a position to check his local standing and his relation to the debtor.

PERSONAL ADJUSTMENT SERVICES

Recognizing the need for a more dependable collection service than is possible through forwarding agencies and local attorneys selected more or less at random from published lists in which the names are inserted for a consideration, certain agencies and commercial lawyers have in recent years been offering what is known as "personal adjustment service." These organizations undertake to present all claims, or at least all claims above specified amounts, in person by a trained adjuster who will represent the creditor's interest not merely to the extent of securing payment but with a view to fostering the good-will of the debtor and retaining his custom if he is in condition to merit further credit.

These adjusters are not lawyers, or, if they are, they do not approach a debtor as a lawyer but as a business man or an employee. Finding the debtor short of ready funds, the adjuster does not either in words, or by his appearance as a lawyer, suggest suit, costs, seizure of property, and sale at a sacrifice; but, rather, enters into the debtor's problem and endeavors to find a way to serve his employer and at the same time avoid entailing a hardship on the debtor. On the other hand, since he is on the ground, in his efforts to develop a basis for constructive handling, he can detect cases of hopeless insolvency and if he is unable to collect or secure his employer's claim, he will take immediate measures to prevent dissipation of such assets as remain, not only in the interest of his employer, but also of other creditors as well. In short, this service undertakes as a temporary

employee to serve the creditor whose volume of business or whose disposition does not warrant a regular adjustment department of his own, on the same basis as would his own private adjuster.

Theoretically this service is, or should be, ideal. Practically, it is surrounded with many difficulties and contingencies which may, and frequently do, defeat its intent and mar its success, certainly in many cases, and possibly, so far as developed, on the whole. It is expensive, requiring as it does the payment for time and traveling expense of the adjuster. This restricts the service to large claims which are probably against debtors with material, even if inadequate, assets; or, if smaller claims are to be so handled, there must be a large enough clientage to afford a basis for making up traveling routes that will reduce the average time and expense per claim to a low point. Confining the service to the large claims means simply skimming the opportunity and leaving the lesser items which call, commensurately, for special attention to even a greater degree than do the large ones, to be followed through the forwarding service or some other plan even less certain and effective.

If a service covering all claims big and little alike is attempted, a large expenditure in conducting the business while a clientage large enough to make it self-supporting is being built up is inevitable. Such investment, in view of the uncertainty of the outcome, and no tangible assets to show for it, is not inviting.

Such service, if honestly rendered, without doubt, merits much higher rates of compensation than does the ordinary forwarding service. It is difficult, however, to convince the rank and file credit-extenders of this fact, or of the fact that better service can be depended upon,

and where they are so convinced it is at the expense of the promoter's time and money which must, of course, be added to the cost of the service. Also, creditors, because they are prone to feel that their accounts are good, look on *all* collection expense as a hardship and are disposed to take a chance on the cheapest channel to which the burden can be shifted.

Obviously the problem of personal adjustment agencies resolves itself to a recognition by clients and a rendering by agencies of better service; and, obversely, to a level loading of all rates to a moderate degree, or to a heavier loading on a sliding scale as claims run smaller, so that an agency honestly conducted and controlling a moderate volume of business can pay its expenses and realize a fair profit.

An attempt to combine personal adjustment service with forwarding service is not feasible on account of the temptation of the agency to attempt to realize greater profit and particularly to avoid the risk of traveling expense to distant points; and, on the other hand, on account of the existence of constant ground for suspicion that such shirking of responsibility is prevalent. Besides, if forwarding service is weak at all, and practically all who have studied it are agreed that the best of it is inherently and unavoidably weak, its greatest weakness can be expected, and certainly applies, in the smaller accounts where the commission is not large enough to lift it above its shortcomings.

Evolution, education, both among credit-extenders and agencies will no doubt in time develop the means of true economy of realization and conservation. In the meantime there will be more or less floundering both by clients trying to find, and agencies endeavoring to give, the best service possible within the limits of justifiable compensation.

TEST QUESTIONS

1. What is a collection agency?
2. How do collection agencies perform their work?
3. What are the fees charged by such agencies, and how are they distributed?
4. What special facilities do such agencies often possess for collecting distant accounts?
5. What are some of the precautions to be observed in employing the services of such agencies?
6. Explain the work of personal adjustment services.
7. What are the advantages and disadvantages in the employment of personal adjustment services?

CHAPTER XIV

CONCLUSION

True education, whether broad, general, or highly specialized, does not consist of a mass of facts, or even of principles, memorized, stored away, as it were, to be recalled for use or application at opportune times. Rather, it consists of a development of the ability to recognize fundamentals and relations and from these to construct by reasoning, association, and assembly a solution for any and every problem of life.

Solution of life problems, whether social, or commercial, hinge, like court decisions, more on the points of difference than on the similarity to cases previously worked out. The superficial mind will note prominent features that are similar and pronounce two cases identical, although application of previous solution fails to satisfy. The analytical, the logically developed mind, will, while taking full cognizance of the points of similarity, detect the more subtle, the more obscure, points of difference and, giving each due consideration, will reach a conclusion approximately correct.

The reader is urged to consider carefully the application of the principles developed in this work to his problem—the problem of collections. He is requested to note that no two collection problems, where they have developed to the point of being real problems, are alike. Even if the physical features, resource, liability, merchandising, conditions, etc., were identical (and they

never are), there would still be the human element to consider which means diversity unlimited. Not only must he realize that complete satisfaction, which means not only the effecting of the collection, but also the development of the situation for future relation, or the discovery that future deals cannot be considered—cannot be secured by exactly the same methods in any two cases—but he must also realize as well that another collector could not have satisfactorily solved either problem by the same process as had brought success to himself. In other words, the human element has its bearing, not only in its relation to the debtor but to the collector as well.

Consequently: Develop and follow each case on its merits, keeping in mind resource, environment, personality; and, obversely, avoid trying to develop rules, formulas, and processes that can be applied to all, or even many, cases. Likewise, avoid trying to utilize forms, or methods, simply because they may have been successfully employed by others.

Certain processes, routines, methods, facilities, and systems are, of course, desirable; indeed, necessary. These, however, are for the mass of collection, not for any particular unit. They facilitate and insure attention to the units at the logical time for each. When they have brought the unit to the attention, it should be considered, handled, as individually as if it were the first, the only, collection problem in the universe of business. Recognize and adjust processes to the individuality of the collector, the debtor, the case, in all its parts and as a whole.

Collector: Realize and remember that liberality, laxness, is not always a kindness; that firmness, insistence, may be, frequently is, the spur that incites the debtor to effort in his own interest and for his own good. After

allowing, even to the point of great liberality, for the contingency that could not have reasonably been foreseen, press for your just dues, not only because you have a right to do so, but with a realization that such is to the interest of the general integrity of credit; indeed, to the best ultimate interest of the debtor himself.

Going forward on these lines, but remaining human withal, you will secure to yourself satisfaction, material and personal, and at the same time, retain the friendship and the good-will of all, including the chronic slow pay.

TEST QUESTIONS

1. On what principles is true education for the development of business power based?
2. Explain how the solution of commercial problems often hinge more on points of difference than on their similarity to cases previously worked out.
3. What is the danger of mere imitation, or following the example of another, in the solution of business problems?
4. Why are two collection cases seldom identical?
5. Does this mean that there are no fundamental principles on the basis of which a collection man solves his problems?
6. How may the collector aid in building up the general integrity of credit?

MAIL-ORDER INSTALMENT COLLECTIONS

CHAPTER I

FUNDAMENTAL PRINCIPLES OF MAIL-ORDER INSTALMENT ACCOUNTS

THEIR PLACE IN MODERN MERCHANDISING

"We trust the people." This is the business slogan of a great institution dealing in house furnishings, whose business covers the continent and runs into millions of dollars annually. Another firm of equal magnitude informs us that all we need to do is to furnish the girl—they will furnish the home complete, or in their words "feather the nest" by their "live-and-let-live" policy of easy payments. Attractive advertisements in the daily papers picturing cozy suburban bungalows, to be paid for "same as rent," lure the flat dweller from the city. In the words of a thousand instalment concerns throughout the country, "Your credit is good" for real estate, furniture, automobiles, pianos, sewing and talking machines, jewelry, books, clothing, stocks, bonds, electrical appliances—in fact nearly everything that the average American citizen requires or thinks he requires in his pursuit of happiness. It has been said that one possessed of good character and a position today may, if he wishes, be established tomorrow as a householder, enjoying all the necessities and many of the luxuries of life—all on the instalment plan.

The inauguration and growth of the partial-payment system has brought about great changes in the methods of merchandising in many lines of business. No statistics are available to indicate the volume of business done annually on the instalment plan and its relation to the total volume, but in certain lines, such as musical instruments and probably real estate for homes, the volume of such sales doubtless exceeds that of the cash business, while furniture, vehicles, the better grades of standard books, and many other lines will probably average equally between the two methods.

While practically anything may now be purchased on the instalment plan, the method itself is new, relatively speaking, having had its inception as a fixed business policy less than twenty years ago. Only during the past ten years has it assumed proportions sufficient to make the collection of such accounts a work equal to, if not surpassing in importance, the collection of the orthodox "open account."

It is an open question whether or not the instalment method of merchandising is an unmixed blessing to the public. On one side is the theory that the plan has brought within the reach of the small wage-earner and man of restricted means many of the refinements and luxuries of life, thereby raising the standard of living in the American home. Opposed to this is the contention that "easy payments" operate to lead improvident people into expenditures and debt unjustified by their incomes and station in society. This point is mentioned here because it has an important bearing upon the specific problems we are about to investigate.

Irrespective of the advantages or disadvantages of instalment sales to the consumer, from a purely sales standpoint as a creator of business the plan abundantly

justifies itself. For example, in selling a three-hundred-dollar piano the purchaser is given three years to pay, and the sale is made by reason of the piano's being delivered at once, to be used and enjoyed immediately. If the purchaser were required actually to save three hundred dollars over a period of three years before securing possession of the piano, the sale doubtless would not be made. Three years is a long time, and doubtless many other uses would arise for the fund set aside for this purpose. Therefore the instalment plan has created three hundred dollars in business by virtue of the plan itself. Of course, some people take advantage of the instalment plan as a matter of convenience, but this percentage is negligible. It is safe to say that ninety-five per cent of instalment sales are made to people who could not buy otherwise.

PRE-ACCOUNT INFORMATION

In the collection of instalment accounts the well-defined rules and principles governing ordinary mercantile accounts will not hold good. The result has been the creation of a new profession more exacting in its requirements, infinitely more complicated in its purely mechanical features, and calling for a keener insight into human nature than is required in the ordinary wholesale mercantile lines.

Mercantile collections are more or less insured by the credit department before the account is placed on the books, whereas in the typical instalment business the house really does not become acquainted with its customer until credit has been extended and the merchandise delivered. A stranger, a thousand miles away, asks for credit on a valuable and portable article. According to the orthodox rules of credit, he should be

required to furnish bank references. He should be rated in the mercantile agency books, or at the very least should be required to furnish the signature of a rated property owner or merchant on his sales contract or lease. Yet he is not asked to do any of these things. The credit department has perhaps ascertained that there is such a person at the address given, and that (so far as the town marshal, justice of the peace, postmaster, attorney, or whoever reports upon him knows) he is a man of good character. That is sufficient, and the order is shipped. In fact, several of the greatest instalment mail-order concerns in the country now make no credit investigation whatever, shipping thousands of dollars' worth of merchandise each day without an investigation or even a first payment down. Instalment credits are more or less guess work in any case, and the theory is that the credit department will guess wrongly and refuse credit on a sufficient number of perfectly good risks to make up for the loss that will be incurred by the granting of indiscriminate credit.

PERSONALITY OF THE DEBTOR

Another factor entering importantly into the collection of instalment accounts, which is more or less a minor consideration as regards wholesale commercial collections, is the personality of the debtor. The typical instalment purchaser is not usually a very good business man, though of course there are hundreds of exceptions to the rule. Different businesses also attract different classes of instalment debtors. While the typical instalment purchaser's conception of an obligation will doubtless compare favorably with that of a rated merchant, still his knowledge of ordinary commercial practices and usages is apt to be rather rudimentary, if not totally

lacking, and this fact must be kept carefully in mind in all dealings with him.

INDIVIDUAL ATTENTION EXTREMELY DIFFICULT

Still another consideration which has made the collection of instalment accounts a distinct problem, is the great number of individual accounts which must be handled under one system. The ordinary wholesale mercantile concern will have a few hundred or thousand accounts, to each of which it is possible to give personal and individual attention in case of delinquency, whereas an instalment collection department may have several hundred thousand individual accounts in process of collection at one time. On account of the considerations set forth in the preceding paragraph, it is desirable that these accounts receive attention of a more personal and specific nature than the ordinary wholesale account. As the amount involved in the ordinary instalment account would not justify this (the average instalment seldom exceeding five dollars) the department must be operated under a rigid system which will automatically check and disclose all delinquencies among its myriads of units, but still be elastic enough to allow for any variation or condition developed by reason of its automatic functioning.

It has been said that "the personal touch" is extremely important in collecting. This was said of mercantile accounts. From what has been said of the nature of instalment accounts it will readily be seen that it is vastly more important as regards these, but it is impossible to inject this quality into the communications addressed to a hundred thousand different people. Yet there are ways and means of attaining the *appearance* of this desirable quality, even though the motive power is purely

automatic. All these things the efficient instalment collector must know how to do, and in learning how to do them, as he has, he has become a specialist of a high type, in no way to be classified with the office man "who also looks after the collections."

THREE FACTORS IN INSTALMENT COLLECTION

In attempting to formulate rules or principles to govern the collection of instalment accounts we are at once confronted with the wide diversity of conditions which will affect the policy of the collection department as regards the attitude of the house to the debtor and the means to be employed to effect or enforce collection. Three fundamental considerations will at once be disclosed, which may be stated as follows:

1. The financial responsibility of the debtor.
2. The character of merchandise sold.
3. The method of sale.

These three considerations must be kept firmly in mind, as the specific problems of collection which we will examine and attempt to solve, drawing our deduction of principles therefrom, must first be classified with due regard to each of the three, and their relation to each other—what is sold, to whom sold, and how sold.

When we have gone thus far and ascertained the class of people we are dealing with, the nature of the transaction, etc., it may seem that we would have a sufficiently concrete foundation upon which to build our collection policy. We really have the foundation, but that is all.

Suppose we are selling gas engines to farmers on monthly payments. We know the character of letters to write to farmers. We have farmers in general properly classified in relation to other classes of buyers. Perhaps we have gone still further and classified the farmers

themselves, giving due regard to the fact that gas engines on the farm denote progress and therefore we are dealing with a substantial class of business men. We know how the engines were sold; what representations were made as to their durability, power, fuel economy, etc., and whether or not they will fulfill these promises under the proper conditions. Yet if our house has sold ten thousand engines, and we attempt to handle these ten thousand accounts under a rigid blanket policy with regard to only the three considerations outlined above, our collection department will be about as successful as a shoe factory which made only number-nine shoes. A few customers would be fitted perfectly, but their expressions of satisfaction and commendation would be drowned amid the remonstrances and complaints of those with pinched or blistered feet. As an example of what further facts must be considered let us take one personal matter, the most important, which will enter into all instalment transactions—the attitude of the debtor.

ATTITUDE OF THE DEBTOR

We certainly cannot pursue the same policy with John Jones, who has, or thinks he has, a legitimate complaint, as we would with James Smith, who is well satisfied with his engine, but is prevented by circumstances from meeting his payments promptly; or with Henry Brown, who should not have ordered an engine in the first place, having neither use for the engine nor money to pay for it; or again with William Black, who has no intention of paying at all until forced to do so. A moment's examination of all the different angles of the problem that this one consideration alone will create would seem to preclude any possibility of a really efficient and compre-

hensive system, yet the house has sold ten thousand engines this season, and plans to sell twenty-five thousand next year, so a start must be made.

TEST QUESTIONS

1. To what extent does the mail-order instalment business prevail in modern merchandising?
2. What articles, if any, are marketed on the instalment plan in your own town or city?
3. How does the volume of instalment business compare with "open account" business?
4. What are the advantages and the objections to the instalment system of merchandising?
5. How does a mail-order instalment account differ from an ordinary merchandise account in its inception?
6. In what important respects do instalment debtors often differ from open-account debtors?
7. What are the three fundamental considerations to be observed in handling instalment collections?
8. How does each factor affect the problem of collections?

CHAPTER II

TYPICAL INSTALMENT COLLECTION CASES

In order to arrive at anything like specific solutions of the various problems which will confront an instalment collection department, we must have the specific problems themselves; so we will take a number of typical examples which will be met with in various lines of instalment business, outlining the important complications which may arise during the process of collection. We will enter into these specific problems rather fully, assuming that we are examining a number of actual instalment accounts which have just been placed in the files of collection departments.

AN ACCOUNT FOR LUXURIES

Henry Simmons of McCook, Kansas, brakeman on the Union Pacific Railway, has purchased a diamond from the Blank Jewelry Company of Chicago, paying \$1.00 down and agreeing to pay \$5.00 per month until a total of \$76.00 is paid. Simmons' sales contract or lease states that title to the diamond does not pass to him until the full purchase price is paid and that if two or more payments become delinquent, the entire unpaid balance, at the election of the seller, becomes at once due. Now, let us examine the three basic conditions upon which our efforts to collect this account must rest:

1. *The Financial Responsibility of the Debtor.*—The sales contract states that Simmons is twenty-five years

of age and is employed as a brakeman. It is therefore evident that he can well afford to pay the monthly instalment agreed upon. He is no doubt dependent upon his monthly salary, however, and should this be stopped for any reason he probably would have nothing to fall back upon. Another thing: he is a railroad employee and unmarried, and should he lose his position in McCook he would be obliged to go elsewhere to secure similar work; an easy matter for him, as his fellow-workers will carry him free wherever he desires to go. It would therefore appear that the account would be a very satisfactory one, provided nothing happens to Simmons' income or position.

2. *The Character of the Merchandise Sold.*—The merchandise is a diamond, a very valuable and easily concealed article. It will not deteriorate with use and can be taken back by the firm, reset, and sold again without loss. Title to the diamond does not pass to Simmons until it is paid for in full. Therefore every payment he makes on it increases his equity therein and his reluctance to give it up. A diamond is a luxury, as distinguished from a necessity of life. This fact will have an important bearing upon the collection of the account if trouble ensues, because the statutes of nearly every state make an important distinction between luxuries and necessities.

3. *The Method of Sale.*—Simmons purchased the diamond through the medium of a magazine advertisement. Although the advertisement laid particular stress upon the ease with which the article could be acquired, Simmons acted upon his own initiative in sending for it. Although he did not *need* it, he really *wanted* the diamond. By what mental processes he decided to purchase it we do not know. Probably he did not give the matter much thought himself. No doubt he had always

considered diamonds as the outward manifestation of prosperity and had admired them through the jeweler's window in a rather impersonal way, cataloguing them vaguely in the cargo of his ship which would come in after he had got around to send it out. Or perhaps a diamond was necessary to certain romantic plans or the consummation thereof; or perhaps it was simply a gratification of the human and universal desire for the possession of beautiful things, hitherto considered hopeless, and then suddenly rendered feasible by the offer of "a dollar down." At any rate, his order and a dollar are received along with a dozen, hundred, or thousand similar ones, the diamond is sent, and the account placed in the collection-department files.

COLLECTION PROCEDURE

A bill will go out automatically to Simmons each month (if payments are to be made monthly) several days before his payment is due, and if these bills are paid promptly his account will remain in an honorable obscurity in the collection files until it is paid in full. If a remittance is not forthcoming within a certain time after the bill is sent, a second one goes forward, followed at regular intervals (dependent upon the debtor's distance from the home office) by a series of form-letters. These letters are progressive in character, beginning with a courteous and diplomatic reminder of the payment past due, and gradually increasing in insistence that Simmons either pay or explain his failure to do so.

MISFORTUNE

Suppose Simmons responds to our first letter stating that he has been unfortunate. He has lost his position, has met with an accident, or is ill. Shall we write him a

cold, business-like letter, again calling attention to the delinquent condition of his account and ignoring his explanation? Hardly. The collection department now becomes personified in the correspondent, who is extremely sorry to know of Mr. Simmons' trouble and trusts that the present handicap will soon be overcome, and informs him that under the circumstances an extension of payments will be freely granted.

The correspondent means just what he writes. If he is a real collection correspondent, the first thing he has learned is that he is dealing with human beings, not impersonal "accounts." Simmons discovers that he is writing to a real flesh-and-blood person who understands his case perfectly and who is going to "take care of him." Of course, a subtle "collection" touch may be added to the letter to this effect: "I know you will resume your payments just as soon as possible, as I should dislike to see you lose your diamond after paying so much on it," but still Simmons has received what he needs—human understanding and sympathy, and no harm has been done, even if he is left with the realization that money is still owing and must eventually be paid.

Too much stress cannot be placed upon the importance of this. If Simmons is out of work or ill he will experience a financial setback. When he goes to work again he will probably be more or less in debt or need a good many things, and the demands on his purse will be greater than his income for some time. The first creditors to be paid will be those he wishes to pay. The diamond account is under a great handicap anyway. His creditor is a thousand miles away, whereas the landlady and the local merchants are right on the ground and not to be put off. This brings us to another important angle of instalment

collections which may be stated as *the discrimination against the distant creditor*.

OVERLOADED WITH INSTALMENT ACCOUNTS

Suppose Simmons has allowed himself to become involved in debt through misfortune or carelessness or on account of the assumption of other obligations. Thousands of letters are received in every large collection department each year from debtors stating that they have just purchased a home, must meet a certain bill, or have purchased something which must be paid for within a certain time, and therefore they must have an extension of time or a reduction in payments.

If Simmons writes such a letter he should be taken to task in a friendly but firm manner. In the first place he has no right voluntarily to assume obligations beyond his ability to meet, or if these obligations have been forced upon him through sickness or misfortune, he has no right to discriminate against certain of his creditors in favor of others. The amount he has available to meet his obligations, if less than the amount required, should be prorated among *all* his creditors with equal justice. But he does not usually understand this. The Blank Jewelry Company is a more or less impersonal entity, a long distance away, and while he fully intends to pay them every cent he owes, still there is nothing intangible or impersonal about the landlady and the other local creditors. He can, if he chooses, allow the wrath of the Blank Jewelry Company to remain sealed up in unopened letters, but not the wrath of his local creditors; therefore he discriminates.

Again he will ask for an extension of payments in perfect good faith, because he has purchased something else which must be paid for promptly, ignorant of the

injustice he is doing the House and the unfairness of his request. We cannot inform him that we are not concerned with his personal affairs, that we have entered into a definite business arrangement with him and shall expect him to fulfill his part of it. This is actually the case, but Simmons must be made to view the situation from the standpoint of the House as well as his own, and a curt statement of facts will simply make him angry, and he will *take* the extension originally asked for. It is much easier to create an antagonistic attitude on the part of a debtor than to overcome one. Therefore we must patiently explain why such a request is unjust, impressing it upon Simmons that "we are sure he will at once recognize the justice of our attitude." Even though circumstances are such that he *cannot* continue his payments promptly, if we have handled the situation properly, he will recognize the fact that he has treated us rather shabbily and resolve to rectify his shortcomings as quickly as possible.

It will thus be seen that we are more or less dependent upon Simmons' good will, and every effort possible, consistent with sound business, must be exerted to maintain this attitude on his part; not by a weak and ready compliance with any unjust or unfair request he may make, but by a diplomatic and firm insistence upon as close an approximation to the original agreement as circumstances will permit. If Simmons is the kind of man we hope he is, this treatment will be successful.

THE SLOW-PAY DEBTOR

We will now consider the Simmons account from the standpoint of the "slow-pay" debtor. Suppose he is something of a spendthrift; owes his entire salary check before he receives it, or, like so many of his class, spends

the first few days of the month in lavish affluence and the balance in poverty. If we could "lay for him" outside the paymaster's window each month we should experience no difficulty in collecting, but remember, the impulse to pay must be strong enough within him to make him buy a stamp and a money order and mail it.

Should Simmons be in this category, we shall probably succeed in collecting from him about every three months, or when he is brought to a realization that the patience of the House is exhausted. He may mean well enough but simply be improvident. Then again, he may not mean well and may pay only when he knows that he must, in order to avert drastic action. In either case, it does not take long to establish the fact that he is "slow pay," and when this is once ascertained there is nothing to be gained by appeals to his honor and sense of fairness, intimations that he is endangering his credit standing, etc. What does he care for these things? He "knows the game" and intends to take advantage of the leeway given him to the fullest extent, entertaining the very foolish but somewhat prevalent idea that the longer he can evade payment the more he will be ahead.

If Simmons is of this kind, he does not need a bill each month. A letter to the effect that "we regret to note that you have again allowed your account to become delinquent and must request that you favor us with a remittance by return mail" will not bring results. He needs a jolt. Suppose we could actually see and talk to him for a few minutes. Our message would be something like this: "See here, Simmons, we are getting tired of this treatment. You are simply taking advantage of our good nature and we do not propose to stand it any longer. If you think you can stall us off month after month you are mistaken. We extended you credit in good faith,

because we thought you were man enough to keep your word. You have the money. Now pay up, or we will get after you in a manner that will bring you to time." This is a language that Simmons can understand (assuming that we have him in the proper category). Therefore our notice of payment due should be a stiff reminder, followed promptly by such a message as the foregoing.

Suppose that no payment has been received on the Simmons account for three months. He has had two bills and seven or eight letters. Something is wrong at McCook. We have appealed, in our form-letters, to his sense of fairness and honesty. He has been admonished that he is jeopardizing one of his most valuable assets—his credit; and it has even been hinted that drastic measures are contemplated—all without result.

The natural inference will be that he is dishonest, yet this may not be the case at all, and to act upon this assumption might do Simmons a grave injustice, to say nothing of placing the account in jeopardy. He may be ill in the hospital and his mail piling up at his home. He may have lost his position and left town in search of another, ordering that his mail be held for him until he is located. But we *must* arrive at some comprehensive basis of procedure (we are handling from ten to a hundred thousand accounts, remember) and if Simmons does not answer letters, he must be classified as dishonest and abide with ignoble companions until he clears himself. If we have misjudged him, it is his fault, and we must be skillful enough to make him see this after the first flush of his anger has passed. At any rate, if our letters do not come back unclaimed we must assume that he is receiving them. If we ask Simmons point blank: "Mr. Simmons, are you an honest man or a crook?" he will either hasten to advise us that he is honest, incidently

explaining his delinquency, or by his silence admit that our worst fears are well founded. He has not answered our question and therefore we have him classified as dishonest.

We now have three methods of procedure open. We may place the account in the hands of a collection agency, or in the hands of an attorney, or continue to handle it direct. There is still a good chance that the account may be collected or the diamond recovered through further efforts of the collection department. It all depends upon how hardened an offender Simmons is. Poor collection methods are responsible for a large percentage of the difficulties of this nature. He may have beaten one or two mail-order instalment firms previously and been led to the belief that he has discovered a way to acquire property without paying for it and still maintain his reputation in his home town. In this case publicity is what he fears. Discreet and noncommittal inquiries addressed to banks, attorneys, county and town officials, references, etc., will develop much information regarding his habits, character, standing in the community, etc., and if he really is posing as an honorable man, you have a weapon that he cannot resist. He does not propose that his friends and associates shall know that his proudly worn diamond is not paid for. Imagine the discovery by his fiancée that his troth is plighted with a stolen ring? No, the skillful collector will paint Simmons a picture of consequences that he cannot contemplate with indifference.

If he is indifferent as to his reputation in his community and has no good name to lose, remaining silent or pertly contemptuous to all appeals to his honor or fear, then nothing remains to be done but to recover

the diamond by civil process, or criminal, if he has concealed it.

FINDING LOST DEBTORS

The most exasperating thing Simmons can do is to disappear, leaving no forwarding address. He then becomes, in the parlance of the collection department, "a skip," and must be found by whatever ingenious methods may suggest themselves. We shall not have much difficulty in tracing Simmons, provided he does not become a vagabond, because he lived in a small town where he was comparatively well known. He was an employee of the railroad and will no doubt seek employment elsewhere in the same line of work. He will ride free with friends to the end of the division, and there be turned over to other employees as a brother trainman, and so he will leave a broad trail to his destination.

Ordinarily one "locate letter" will find him. This letter will be in the nature of a decoy, signed by an individual and sent from a different address from that of the firm (preferably from a different town). It will be addressed by title to the official who was immediately over Simmons and state that the writer is extremely desirous of getting in touch with Mr. Simmons for the purpose of imparting some important information and will request the co-operation of the official addressed, containing a stamped envelope for reply. While the letter will be noncommittal, an inference will be given that the writer has information that will be advantageous to Simmons, and the stamped envelope puts the official under something of an obligation to reply. It is more than likely that the official will know where Simmons has gone, or will be in a position to ascertain this by a few

inquiries among his former associates, and the information will be forthcoming.

We will assume that we have found Simmons at his new address. Shall we accuse him of trying to evade his obligation and allow a note of braggadocio over our cleverness in finding him to creep into our letter? We had better not, unless a long period of time has elapsed since his disappearance and circumstances seem to indicate that he has tried to cover up his trail. If he has been found without difficulty and the account is not seriously delinquent, ordinarily a "reminder" sent to his new address, with no reference to the change, will produce results, as it will impress upon him the fact that his creditor is not asleep. Besides, this will give him the benefit of the doubt, to which he is entitled. Perhaps he is out of employment or has met with extraordinary expense in connection with his removal, etc., and he may have fully intended to take care of his payments just as soon as circumstances would permit. At any rate, we know where he is, and thus one difficulty has been removed. Had the specific method of locating Simmons given above failed, we should still have many avenues of research open, one of which at least would surely lead to results.

The tracing of "skips" is one of the most interesting and difficult phases of the collection of instalment accounts, and before going forward with the examination of another account, we will digress here and discuss the subject of finding lost debtors somewhat at length.

Suppose a debtor disappears from a small town leaving no easily followed trail. We know nothing about him, having merely his name and last address. We will fire a broadside and address decoy "locates" to the postmaster, city clerk, chief of police, justice of the peace, and "occupant" of the debtor's last street address, if

he had one. If there is a street address, we may go still further and address "locates" to "next door." By next door is meant the next lower and higher numbers but one. For instance, debtor lived at 441 23rd street. Next door on either side will be 439 and 443. 440 and 442 will be directly across the street. Small town officials are not proverbially overworked, and someone will take the trouble to answer the letter with the desired information. Postmasters are not allowed to furnish such information, but at least 50 per cent will do so, either in their private capacities or through ignorance of the regulation. A registered letter will find the debtor if he has left a forwarding address, as the receipt will come back from the town where the letter is delivered. Often a postmaster will state that he cannot give the desired information but that he has a forwarding address. A registered letter will then serve to clear up the mystery. Town and county officials will often give valuable information, even though the present address is not forthcoming. Often the chief of police will reply that he too is looking for the person in question, or the "occupant" will bewail an unsettled board or rent bill. This is usually the signal to charge off the account, because no "locating" system can keep up with a fugitive from the law.

A married man living in a small city or town will find it practically impossible to place himself beyond the reach of the vigilant collector. Unless he decamps between two suns, his contemplated removal will have been discussed by members of the family and by them with neighbors and friends. It is safe to say that the small-town "skip" does not move in order to evade his debts but rather seizes the circumstance to get out from under an annoying obligation against the payment of

which he has no just defense. In this particular he differs from his city brother "skip," who is often a professional "disappearer," and who from experience and circumstances is able to cover his trail as cleverly as an Indian.

To return to our married man: his wife or children have doubtless told the neighbors where they are going and, being human, these neighbors are willing, nay anxious, to impart whatever information they may have. Therefore if we send "locate" letters to several next-door occupants, we stand a very good chance of getting results. We may of course be addressing a certain percentage of vacant lots, but a few misses must be expected and taken into consideration. These letters should be skillfully written, stating simply that the writer has a matter of importance to communicate to Mr. Blank, formerly residing at the given number, or has important information to convey to him, and would deem it a great favor if the person addressed would give him information as to his present address inclosing a stamped addressed envelope for this purpose.

Some of the replies to these next-door "locates" are exceedingly interesting from the insight they give into human nature. Almost without exception curiosity and a desire to "tattle" will be the dominant motives of the replies. In many cases, if the address is not known, other information will be furnished which will serve almost as well. For instance, after regretting his or her inability to supply the address desired, the party addressed will volunteer the information that "Mr. Blank has a married sister by the name of Smith living at a certain address—that he originally came from Blanktown 'where his folks live,' " or other information of this character, to say nothing of every sort of gossip relating to Blank's habits,

reputation, antecedents, and behavior, all of which is grist for the collector's mill.

One instalment furniture house gets good results in a great number of cases by decoy letters to station agents in small towns asking the destination of Mr. Blank's shipment of household goods. Another house uses a "puncher draft" with good results in small towns; the drafts being returned indorsed "gone to ——" or "send to bank at ——." A "puncher draft" is not subject to protest and is sent direct instead of through a local bank. Country banks are becoming annoyed with these drafts, however, and a great many will not return the unpaid draft unless from ten to twenty-five cents is remitted to cover their expense. Many banks will not even present such a draft unless accompanied by a fee, as not enough of them are paid to make the trouble of presenting worth while. Another, but more expensive, method is to insert an advertisement in the classified columns of a local paper, although most of the replies to this will be in the nature of inquiries as to what the advertiser wishes the address for, or "how much there is in it" for the supplier of the desired information.

These expedients adopted to find a debtor who has disappeared from a small town or village will not do at all when the debtor originally resided in a city. Small-town citizens, while perhaps no more gossipy than those of large cities, have greater facilities for acquiring information regarding their neighbors and townspeople. From two to fifty families may live in a flat or apartment building in a city for a year and still be absolute strangers to one another. A family will move into a neighborhood or building, nobody knowing or caring whence they come, and the same indifference will mark their departure. It is therefore useless in most cases to query the neighbors,

as the "occupant" probably never heard of the family who preceded him, and "next door" on either side may be a ten-story apartment building housing any number of families.

The "locator" therefore finds it a difficult task to find a city "skip." This fact is taken into consideration when the account is opened, and particular stress is laid on having the name of the employer furnished, together with two or more references. If remittance is made by personal check, the name of the bank is carefully noted for future reference. If the stationery of the employer or that of any fraternal or social organization is used in sending in the order, or in remitting, this is also noted. This information and the aid of the registered letter failing, about the only thing left to do is to employ the professional "skip-tracer." As a great majority of disappearances are city accounts, the tracing of them has become something of a profession or business. City papers usually carry help-wanted advertisements for skip-tracers, as they form an important adjunct of the city instalment-house collection department. Collection agencies usually employ these tracers and, all other expedients failing, the best thing to do is to place the account in the hands of a reliable agency in the city where the debtor was last heard from. If the account justifies, they will make a house-to-house canvass in the neighborhood and also interview the merchants in the debtor's late shopping district, picking up bits of information here and there which will eventually serve to trace him.

The larger mail-order instalment houses, handling thousands of accounts annually, usually succeed in working out something of a comprehensive tracing system which will answer for the majority of accounts, but careful individual attention must be given to a large

number. This work requires a high degree of ingenuity, knowledge of human nature, and imagination. The results of a rigid system of tracing are sometimes amusing, if not startling, and a few examples may prove of interest.

A customer of a Chicago concern living in a little town in Arizona allowed his account to become lamentably delinquent and no response could be secured from him. The correspondent in charge of the account gained the impression that the debtor might have moved and the local post office been delinquent with regard to returning unclaimed mail (one of the failings of small post offices). He therefore marked "locates" on the account and, in conformity with the system, "locate" letters were sent to the postmaster, city clerk, chief of police, and justice of the peace. Back came a letter from the debtor himself, inclosing a remittance and apologizing for his delinquency, stating that he had been so busy with his store and cattle ranch that he had been forced to neglect many matters, incidentally remarking that the letters addressed to the various officials had all reached him safely, as all these important functions were centered in himself.

Through an error this same house sent a decoy letter to the city clerk of Detroit, Mich. (Such letters should never be sent to officials of cities.) The city clerk took the inquiry in good faith, believing it a genuine personal one, and placed an advertisement in the Detroit papers stating that John Jones, of Berwyn, Ill., (a suburb of Chicago) was desirous of getting in touch with Jim Smith, formerly of Detroit, as he had some important information to impart. Jim Smith wrote to John Jones, of Berwyn, who was an employee of the House, from away out in Western Canada, saying that he had read the advertisement and that if Jones had any money for him

he was to send it at once, giving his address and a great amount of information regarding himself, so that Mr. Jones would have no difficulty in ascertaining that he was in touch with the right Jim Smith. Smith probably does not know to this day why Mr. Jones did not answer his letter, and why the house he was trying to beat swooped down upon him without warning and threatened to blast his new career unless he settled.

A tearful letter was received by this same employee from a young lady in San Francisco, saying she had heard that he was searching for John Doe, and explaining that she was engaged to marry said John Doe the following week, and if Mr. Jones knew anything to the discredit of John Doe, or knew any reason why she should not marry him, for goodness' sake to let her know before it was too late. Needless to say, the young lady was reassured promptly, and the now-located John Doe admonished that he should start his married life with a clear record.

AN ACCOUNT FOR NECESSITIES

Having discussed the account of Henry Simmons somewhat at length and described some of the many vicissitudes that may affect the collection thereof, we must examine, briefly this time, several other instalment accounts of a somewhat dissimilar nature before attempting to establish principles to govern the collection of such accounts in general.

George Ryan, of Cairo, Ill., avails himself of the generous offer of the Golden Rule Outfitting Company, of Chicago, to "clothe him from head to foot for a dollar a week." Ryan's financial responsibility is similar to that of Henry Simmons. It might appear that Ryan should be able to secure credit for a suit in his own town

and that his sending to Chicago for it would be evidence that he could not, and therefore was a poor credit risk. This does not follow, however. There is a subtle fascination about buying by mail from a large city, and while Ryan probably could do as well in his local stores, still he would rather have the moral satisfaction of wearing big-city clothes.

The important distinction between the Ryan and Simmons accounts which would modify our whole line of endeavor however, should the account "go bad," would be in the nature of the merchandise. Simmons' diamond is just as valuable as it was when he purchased it, whereas a day after Ryan dons his suit it has no value whatever, except what it would bring as junk. Therefore we cannot threaten to recover the merchandise under any circumstances. We should probably succeed only too well.

From the legal standpoint our position is much stronger, for the suit is a necessity of life and the diamond is not. In this particular transaction, it being an Illinois account, if Ryan is a single man we can garnishee his entire salary. If he is a married man his exemption is but fifteen dollars a week, and if he is inclined to be dilatory or defiant, collection may be easily enforced, provided he is employed. These favorable collection laws do not exist in the majority of the states, but most states do recognize the distinction between luxuries and necessities, and as a general rule it is much easier to enforce collection for a suit of clothing than for a diamond.

Another important factor will be the amount of the account. Ryan's balance is much smaller than Simmons', and his willingness to complete payments will be in inverse ratio to that of Simmons, because the suit is rapidly deteriorating, and unless he has been rigidly held

to the performance of his promise the suit may be worn out before it is paid for. Therefore we must be much more strict with Ryan than with Simmons, always remembering, however, that we are dealing with a human being whose friendship is worth cultivating. Another thing, Simmons will buy but one diamond, whereas Ryan may buy many suits.

A WOMAN'S ACCOUNT

Mrs. James Smith has purchased a vacuum cleaner from the Household Utilities Company of Chicago for \$36, payable \$3 per month. If this account "goes bad," the chances are that the family has met with financial reverses or some other legitimate obstacle has been encountered. In this case the procedure is clearly indicated in the Simmons transaction. Perhaps no modifications will be necessary in case Mrs. Smith proves to be "slow pay."

About the only distinction we must recognize is that Mrs. Smith is apt not to be as frank as we should wish in explaining her delinquency. Simmons and Ryan will be quick to plead poverty, whereas Mrs. Smith is more apt to find fault with the machine in order to justify her failure to fulfill her promises. Of course, such a complaint cannot be overlooked, nor can we call the lady's attention to the fact that she has used the machine for six or eight months with apparent satisfaction, as evidenced by her former prompt payment, and accuse her of insincerity. Without any intention on the writer's part to criticize feminine business logic and ethics, the statement is made, purely as a personal opinion, that a woman will fight harder and longer for a mistaken principle and hold an untenable position with more fortitude and determination than a man will. We cannot

write Mrs. Smith that we do not believe her statement that the cleaner will not clean and suggest that perhaps the trouble is a lack of money. Simmons might write that his diamond no longer glittered and Ryan might complain that his suit was becoming wrinkled. We could reply to either of them by pointing out that their complaints were ridiculous and admonishing them to be sincere with us if they expected the same treatment from the House, but with Mrs. Smith we must be diplomatic and solicitous, making inquiry as to the exact nature of the trouble, and offering to make any necessary repairs or adjustments, or even to replace the machine if necessary, incidentally ignoring the financial phase of the matter for the time being.

Should Mrs. Smith's actions prove that she is not acting in good faith, the same motive indicated above, i. e. pride, will prove a powerful weapon against her. No doubt the new vacuum cleaner has been shown to neighbors and friends and pretty generally discussed throughout the neighborhood, nothing having been said, of course, regarding the "easy-payment" feature. As with all new and unusual things, its virtues have been extolled by its new owner, practical demonstrations in the home given, and a good deal of satisfaction, congratulation, envy, etc., expressed. Now, if it comes to a question of Mrs. Smith and the cleaner parting company, she will find this fact rather embarrassing to explain, particularly so if a "brass band" accompaniment is suggested by judicious reference to "constables," "writs of replevin," "summonses," "attachments," etc., in the collection letters. These terms smack too much of publicity to suit her, for it does not take a very lively imagination to picture the cleaner carried through the front yard by a uniformed minion of the law, loaded into

a wagon, and carted away, all before the prying eyes of whilom admiring friends and neighbors. In conclusion let it be said, however, that Mrs. Smith will probably pay for her vacuum cleaner, sewing machine, kitchen cabinet, or whatever she buys, much more readily and conscientiously than will Simmons or Ryan for their purchases.

A BUSINESS MAN'S ACCOUNT

Mr. Charles Brainerd, successful business man of Omaha, Neb., has purchased a home billiard table of the Black and White Mfg. Co. of New York, agreeing to pay one hundred dollars at five dollars per month. Mr. Brainerd is perfectly able to pay cash and secure the discount, but he did not care to do this before seeing the table, and therefore ordered it in accordance with the terms outlined in the advertisement. The chances are that he will send his check for the entire amount if the table proves satisfactory, but suppose he does not, and also neglects the monthly payments?

While such accounts are, of course, gilt-edged as regards ultimate payment, from the collection man's standpoint they are the most exasperating of all. Five dollars each month is a big factor to Simmons and Ryan, bigger perhaps than one hundred dollars is to Brainerd, while five dollars to Brainerd is so small a consideration that he overlooks it entirely. He perhaps intends to pay cash, but thinks that inasmuch as Black & White offered him nearly two years in which to complete payments for the table, they can well afford to wait six or eight months or even a year for payment in full.

The bills and letters perhaps come to his home instead of his office. He has no facilities for handling correspondence at home, and so they are put aside or remain in his pocket, to be discovered only at such times as his

check book or a stamp is not available. We cannot accuse Brainerd of dishonesty, nor do we wish to recover the table. Therefore there is nothing to do but ding-dong away month after month until the happy day arrives when our letter, Brainerd's impulse to pay, and his check book synchronise. Often some ingenious or humorous inclosure with a bill will produce results, or a draft sent to his business address will get the money when everything else has failed.

TEST QUESTIONS

1. Explain the Simmons account from the three angles by which mail-order instalment accounts are judged.

2. What is the collection procedure where the debtor meets with misfortune?

3. Explain "the discrimination against the distant creditor."

4. Explain the various possibilities of handling the overloaded debtor.

5. What are the causes that produce a slow-pay debtor? How is each cause to be dealt with?

6. What means are used by the mail-order instalment collector to locate a lost debtor?

7. What is a "skip"?

8. What is meant by the term "locator" as used in this work?

9. What is a puncher draft? How is it used?

10. What difference does it make from the collector's point of view whether an account is for luxuries or for necessities?

11. What special points are to be considered in accounts with women?

12. What are some of the special difficulties sometimes encountered in a business man's instalment accounts?

CHAPTER III

PSYCHOLOGY OF THE INSTALMENT DEBTOR

ABUSIVE LETTERS

A debtor who had allowed his account to become six months delinquent took offense at a peremptory form-letter demanding payment, and wrote the House an extremely abusive letter. After he had taken time to think the matter over he saw the injustice of his action and realized that he had violated one of the first rules of business ethics. So he sat down and wrote a courteous letter, explaining his delinquency satisfactorily (from his standpoint) and apologized for writing the previous letter.

His first letter, however, made the collection correspondent so angry that he threw discretion to the winds and wrote the debtor a scathing letter that went him one better on all points. Immediately afterwards the second letter was received, but when the correspondent's letter reached the debtor he simply blew up and the account blew up with him. He did not stop to reason that he was responsible for the quarrel and under the ancient rule of "an eye for an eye" deserved all he got, nor did he take into consideration the fact that his second letter had not reached its destination before the reply to his first letter was written. He simply knew that he had received an insulting, abusive letter which justified his own letter, and the quarrel was on.

The loss of this account was directly attributable to the fault of the correspondent. In the first place, an intelligent person never writes an insulting or abusive letter. It is therefore to be assumed that the man who does write one is not intelligent, and this fact should be taken into consideration when a reply is drafted. By answering such a letter in kind the correspondent places himself exactly upon the same level with his antagonist and he must fight him with his own weapons, which is a disastrous thing to do. In most cases one who writes an abusive letter soon regrets it. Anger cools long before the letter can reach its destination, and knowing himself to be in the wrong, the author awaits with considerable trepidation (perhaps subconscious) the result of his broadside. If he gets a reply couched in courteous language, expressing surprise that he has felt it necessary to write such a letter, and adding that inasmuch as it was evidently written in anger it will be overlooked, he feels that he has been guilty of a foolish, ungentlemanly action, whether he admits it or not, and his position has been materially weakened.

Of course, such letters must be met with a firm intimation that they accomplish nothing and that the question at issue still remains to be settled, but the entire matter must be so handled as to impress it upon the mind of the debtor that he is doing business with gentlemen and business men who consider it beneath their dignity to enter into a fishwife's quarrel with him. There is a certain type of debtor that is habitually quarrelsome and abusive and will mistake courtesy for weakness. Such a debtor must be made to understand that missives of this kind will not be tolerated and that the courts of the land and the postal regulations offer a recourse against such practices. Let it be said, however, that the abusive debtor

represents but a very small class among debtors in general, and in the hands of a skillful correspondent he does not present any difficulties that are insurmountable.

EXTENSIONS

What is perhaps the most serious problem confronting the collection department is the matter of extensions of payments. In the collection department of a Chicago mail-order instalment concern, doing a business of several million dollars annually, it was found that but 15 per cent of accounts were paid exactly in accordance with the terms of the sales agreement. Eighty-five per cent lagged behind at some period, and this delinquency was seldom made up. It can readily be seen that delinquencies on the part of debtors may seriously affect the revenues of the House, and therefore every effort should be made to induce prompt payments as they fall due. In the examination of the Simmons account this matter was discussed somewhat at length, but the subject of extensions needs careful examination, as it is the commonest and most important problem that will be met with in the instalment collection department. We will therefore follow the subject a little further.

A debtor asks for an extension either because he needs it or because he thinks he can get it, and it is the duty of the correspondent to decide or find out the true reason for the request. A too liberal policy in the granting of extensions will create a class of debtors who know that they need only ask for one, two, or three months' extension to get it, and abuse the privilege, whereas a too strict policy will create antagonism and result in a large number of controversies. A debtor who is refused an extension is very apt to take it anyway unless the matter is handled with a good deal of diplomacy.

About the only safe way is to explain to the debtor that the goods have been sold to him at a very close price on greatly extended payments with the distinct understanding that these would be forthcoming promptly and that it will work a hardship on the House if they are not; in other words, explain the House's side of the transaction and show the debtor wherein it is his duty, in consideration of full justice to his creditor, that he do all he can to live up to his promises. BUT it should be added that it is not the policy of the House to subject its customers to inconvenience, and if the extension requested is absolutely necessary, the House is willing to be inconvenienced in its spirit of service to him. Then if he takes the extension it will be in the nature of a favor received, and he will hesitate before asking another of the same kind, whereas this effect will be entirely lost if the extension is granted merely by reason of the request. Sometimes a reduction in payments for a limited time will answer the purpose. In any event, do not let the debtor *take* the extension, if it can possibly be avoided. Always give it to him if no other way is found.

There are a great many requests for extensions that are manifestly unfair to the House, and these should not be granted under any circumstances, even though it is necessary to force matters to a final decision. Some of the excuses offered are so unreasonable and so unfair as to cause wonder at the effrontery displayed in advancing them. Here are a few of the most common: Debtor wishes to meet another obligation; needs all his money to purchase Christmas presents; expects to go on a vacation and needs all his money for that purpose; has gone into business which requires all his capital; has just been married; is building a home; has a life-insurance payment coming due—and so on endlessly. None of these is a

legitimate excuse for nonpayment. They have to do with matters within the debtor's control, and he has no moral right to expect the House to stand aside while he takes care of others no more deserving of consideration, and this fact should be impressed upon him in no doubtful terms. The debtor must never be allowed to place his instalment account at the bottom of the list, because he may never reach the bottom.

A collection correspondent will be struck with the large amount of sickness and misfortune which overtakes the House's customers. In a thousand accounts upon which extensions were requested, taken from the files of a large concern, over 30 per cent were based on the plea of illness. Probably but half of these were genuine, yet when a debtor says he is ill it is impossible to contradict him flatly. Experienced correspondents develop an uncanny faculty for detecting insincerity on the part of debtors, and a few discreet inquiries by mail will usually develop the truthfulness or falsity of such statements and dictate the action to be taken.

Illness, of course, is a legitimate excuse for nonpayment, as is also unemployment, but these two excuses are fairly easy to check up, and this should be done in all cases, unless the correspondent fears to lose his faith in the truthfulness of mankind in general. Every effort possible should be made, however, to protect the sincere and deserving delinquent, because he usually has trouble enough in overcoming his personal obstacles.

There is also a class of debtors who will seize eagerly upon any condition of the country as an excuse for nonpayment. Perhaps a flood or a fire that has not affected them at all will be advanced as an excuse, to say nothing of the old reliable "hard times" classic. It does not matter how delinquent the account was before the fire,

flood, strike, or whatever it is occurred; the event is given as the cause of the delinquency, and it then becomes the duty of the correspondent to point out that the excuse does not ring true and that the event or condition appears to be an excuse rather than a cause.

THE DEBTOR'S VIEWPOINT

The first thing the instalment collector must learn is that he is not collecting from business concerns, but from individuals, the great majority of whom are more or less unfamiliar with ordinary business customs and usages and totally ignorant of a great many things that the collector would take for granted if he were writing to a rated merchant or firm. The ordinary mail-order buyer has a very hazy conception of the nature of a contract or agreement of any kind made at the time of purchase, and is given to delivering ultimata as to what he will and will not do later on in the history of the account. For instance, a debtor may find it inconvenient to pay, for some reason or other, and inform the House to this effect. Then, whether the House has granted him the extension or not, he will take vigorous exception to any further effort to collect from him, maintaining that the House is "hounding him." A debtor who has purchased goods under an ironclad contract with the terms of payment clearly and specifically outlined will write, "I told you that I had other bills to meet this month, so why do you keep on dunning me?" or, "I told you in my previous letter what I would do. If you do not think I am honest, say so," and so on.

Such letters are not ordinarily written with a desire to defraud the House or to escape ultimate payment, but rather in ignorance of the moral and legal significance of a written agreement. Of course, with Simmons we

can threaten to take his diamond away from him, but with Ryan we must be patient and diplomatic, constantly explaining the equities of the situation, appealing to his sense of fairness and justice, and endeavoring to make the House a personal entity in Ryan's eyes, rather than an impersonal, cold-blooded corporation. There is a period in the history of every account that becomes sufficiently delinquent where cold-blooded business methods must be adopted, but this is when Simmons, Ryan, et al. receive no more letters on the stationery of the House but from the collection agency.

WRITING TO THE CHIEF

When a customer has a grievance against the clerks in a store he is prone to hunt up the "boss" to air it. It is human nature to go to the fountain-head for redress. So the mail-order instalment buyer will write to the president or any other officer whose name he can discover on the letterhead or literature of the House. He will do this either because he thinks his case an extraordinary one and worthy of the personal attention of the chief executive, or because he believes he can make trouble for the minion of the collection department who has been "hounding" him.

The progressive instalment collector has not been slow to recognize this extremely human trait and has turned it to his own advantage. A debtor who has ignored a whole series of letters signed by a mere correspondent is very likely to respond to a letter signed by the president, treasurer, or other important executive. For instance, the debtor has gone through a series of letters, each more insistent than the last, until finally extreme measures are threatened. Then he will get a letter from the president stating that Mr. Blank of the collection

department has asked his (the executive's) permission to take extreme measures, but before giving this permission the president determined to write the debtor, as he feels sure that there must be some satisfactory way out of the difficulty. Perhaps Mr. Blank has not handled the matter efficiently, or some letter that would have cleared up the whole situation has gone astray. Perhaps the debtor has misunderstood and allowed himself to become disturbed by something that the president can easily adjust, and so on.

Such a letter will bring a large percentage of replies, some explanatory, some complaining of the persecution of the debtor by Mr. Blank, and nearly all of them opening a way for a satisfactory settlement. Such letters are not to be considered in the nature of decoys or subterfuges. They are really the expression of a sincere desire on the part of the House to adjust an unsatisfactory situation when other means have failed.

It is only natural that one holding to an untenable position should wish to recede as gracefully as possible—in other words to “save face,” and such a letter offers one so inclined an excellent opportunity. A debtor may have allowed his account to drag along until the situation becomes extremely strained and wish to make payment, or reach a condition where he can make payment, but still hold off because he does not wish the enemy at the other end to think that he frightened him into it. It is therefore advisable that each belligerent stop firing now and then to peer over the earthworks and see if the other fellow has not had enough. It may be that the debtor is extremely desirous of an honorable peace, but will fight to the bitter end before making an unconditional surrender.

GOOD INTENTIONS

A very common letter from debtors reads something like this: "I have delayed writing you because I hoped to be in a position to send a payment along with my letter." Another favorite form is, "I have been away from home on business for the past three months and just received your insulting letter today." Each of these letters present a distinct type. Both debtors are angry and have taken exception to letters received from the House. The writer of the first letter is entitled to more consideration than the latter, although he has not displayed a greater amount of common sense.

There is just one policy to pursue with a debtor who does not pay and who will not explain. He must be given every possible chance to do either, but finally he must get a letter that will make him angry. He has already received from six to twenty letters, beginning with extremely courteous "easy" requests and gradually growing in insistence, but he has not responded. Then when he gets one that jolts him out of his silence, he forgets or disregards everything that has gone before, ignores the fact that he should at least have explained his delinquency months ago, and becomes highly indignant that such a letter as the last one should be addressed to him. Remember, he has intended to pay all along, but he has not taken the trouble to advise the House of his good intentions, and for all they know he may lack them entirely. He is mad now and doesn't care whether he pays or not, and if we think we can bluff him, why try it, etc.

The debtor who has been away for several months probably is simply giving this as an excuse. The fact that he has been away is not a legitimate reason why he

should not pay, and he has no right to declare a moratorium for this reason. If his mail did not follow him (as he is apt to state) he found the "easy" letters as well as the "insulting" one upon his return, and he need but compare the dates to determine that he received ample consideration. Anyway, the object of the letters has been accomplished and it remains for the correspondent to pour oil on the troubled waters and convince the gentleman, not that he is in the wrong, but that the best thing to do is to wipe the slate clean and make a fresh start.

TEST QUESTIONS

1. How should the collector treat abusive letters sent to him?
2. What rights has he against a debtor who persists on writing abusive letters?
3. For what two main reasons does a debtor ask for extensions? What are some of the main excuses offered under each?
4. How should the collector handle each set of excuses?
5. What is the psychological effect of a letter from or to the chief?
6. To what extent can the instalment collector rely upon the professed good intentions of debtors?

CHAPTER IV

SPECIAL COLLECTION DEVICES

DRAFTS

An ordinary mercantile account, if not paid within a reasonable time after it becomes due, is subject to draft; that is, the jobber or manufacturer, after due notice, will draw upon the merchant through a local bank for the amount due. This is an ordinary commercial custom and is not construed by either debtor or creditor as an unfriendly or arbitrary action; in fact, many firms prefer to pay in this way, as the paid draft is a receipt and the transaction is promptly closed. The draft system should also be an ideal way to collect instalment mail-order accounts, as the debtor would be spared the necessity of buying a money order or mailing his remittance. A bank in his town would present him a draft each week or month and deliver the draft to him upon payment as his receipt. This would obviate all possibility of loss in the mail and all chance of clerical error on the part of the House in crediting remittances.

The theory does not work out in practice, however, for the reason that the ordinary instalment debtor does not have a clear conception of drafts, and is more likely than not to consider it as an attempt on the part of the House to enforce payment, the alternative being that the refusal or inability to pay the draft when presented will injure his credit standing with the bank, or that some undefined, undesirable situation will develop by reason of the draft.

An instalment concern selling to a comparatively high-class clientele kept a careful record of complaints as a result of its draft system over a period of several months and found that over half displayed an ignorance of the real significance of a draft. Such statements as the following were quite common: "I have no account in the Blank Bank, therefore you will not get anything by drawing on me," and "Your underhanded attempt to draw on my bank account did not succeed, as I told the bank not to pay you." In fact, a good many of the letters indicated a belief that a draft was some sort of legal process in the nature of a garnishee. Of course, in dealing with men like Brainerd, who purchased the billiard table, this condition would not be encountered. He understands the draft and would probably prefer to pay in that way, but it is safe to say that the rank and file of instalment buyers will not respond to the draft in sufficient degree to compensate for the loss and damage that will accrue through those who do not understand it.

Taking advantage of the situation just outlined, we can often use the draft effectively after every other effort to collect has been exhausted. The debtor is informed that the House is about convinced that it is not his intention to pay until forced to do so, but before taking the drastic action that his account would seem to warrant, it is making a draft which will place him squarely upon record and dictate the further action of the House. This puts it up to the debtor who does not understand drafts in a solid, cold-blooded manner, and when the draft is actually presented to him he will think twice before refusing it.

A mercantile draft is usually deposited in the creditor's bank, which in turn forwards it to a correspondent in the debtor's city for presentation. Instalment drafts are

not handled in this way however, being sent direct to the bank in the debtor's town, with notice that they are not subject to protest. The banks do not consider these drafts very highly, usually calling them "punchers," and of late years a majority of banks will not present or return such drafts unless accompanied by ten, fifteen, or twenty-five cents to cover cost of presentation, so few of them being paid that the proceeds do not cover the expense and bother involved. It is absolutely necessary that a draft be presented if this action is threatened in the manner outlined above. The only way to insure its presentation is to inclose at least ten cents to cover cost of presentation, and this amount, together with postage, etc., will result in an expense that is hardly justified, except in extreme cases.

LEGAL PITFALLS

The three pitfalls to be avoided by the collection correspondent are blackmail, libel, and the postal regulations.

Blackmail is "extortion of money by intimidation, threats, or accusation."

Libel is "any statement published without just cause or excuse, expressed either in print or in writing, tending to expose another to public hatred, contempt, or ridicule."

From the standpoint of the collection correspondent libel and blackmail are closely similar. The behavior of a debtor may be of a nature to expose him to "public hatred, contempt, or ridicule," but a direct threat to expose this behavior unless payment was made would be construed as blackmail. The fact that the accusations would be true and the debtor really deserved "public hatred, contempt, and ridicule," would not change the situation.

Yet the skillful collector can with perfect safety implant in the mind of the debtor by indirect means the same idea of consequences as he would by a direct illegal threat. For instance, the following would be decidedly illegal: "Unless a remittance is received by return mail, we shall take steps to show you up among your friends and neighbors in your true colors as a man without honor enough to pay his just debts." The following would accomplish the same results and at the same time be free from the objections noted: "We trust you will not force us to take action which can but result in unpleasant and embarrassing publicity both for you and for us," or "We do not believe you are a deadbeat and we have no desire to place you in a false light among your friends and neighbors, but your account has reached a point where we must take steps to protect ourselves, and we therefore disclaim all responsibility for what may happen as the result of your continued disregard of your obligation." In these two examples nothing is directly threatened. In fact, the desire to protect the debtor is emphasized, and if anything unfortunate does occur, it will be the logical and inevitable result of the attempted enforcement of collection.

The postal regulations forbid the display either on the envelope or upon a postal card of anything that will convey the idea that the addressee is being dunned, anything in the nature of a threat, either legal or illegal—in fact anything that may broadly be considered to reflect upon the character of the person addressed. It is permissible to render a statement upon a postal card, giving date of payment due, discounts, etc., but nothing in the way of a penalty for nonpayment may be added. Nor is it permissible to print an advertisement upon an envelope indicating that the business of the sender is to collect bad

debts. It is, of course, against the postal regulations to write anything in a letter which will violate any state or federal statute.

THE COLLECTION AGENCY

The average business concern desires to maintain a certain dignity of attitude, varying of course with the nature of the business and the character of its customers. The policy of the House will set a certain limit beyond which it is inexpedient, as a matter of business and ethics, to go as regards both the sales and collection departments. Just as in the sales department a too enthusiastic presentation of the article to be sold may border upon misrepresentation, so in the collection department, a too drastic effort to enforce collection may cause embarrassment.

A concern spending thousands of dollars to advertise the fact that "We trust the people" and that "Your credit is good," cannot with propriety appear in the courts as plaintiff against these same "people," or assume the position of exerting indirect and perhaps unethical pressure upon a debtor, his employer, or his social or business affiliations. Yet there comes a time in the collection of some accounts where the expedients available to the collection department thus circumscribed are insufficient. The debtor remains callous to all appeals to his honor, either assuming an attitude of defiance or maintaining a seemingly contemptuous silence. In such a case the malady requires stronger remedies than the medicine chest contains and a doctor must be called in. The doctor is the collection agency. It is not within the scope of this article to discuss the methods of collection agencies, as this is a distinct subject in itself, but rather to ascertain what can be accomplished by their use.

By the average person, the collection agency is held in about the same estimation as the so-called loan shark or the Black Hand Society, and in this fact lies its chief weapon of offense. Having no reputation to lose and caring nothing for the good will or ill will of the debtor or the public in general, the collection agency is a free agent, free to adopt any method, no matter how irregular from a business or ethical standpoint, that may cause the debtor embarrassment or mental anguish, its procedure being limited only by the postal regulations and the laws governing libel and threats. The legal phase of the matter does not handicap the efficient collection agency in any way, however, because direct and specific actions are never indicated in any branch of collection work. In agency work especially a specific threat will inform the debtor just what will be done and he will discount the effect. He knows what is coming and will prepare for it. Even though a fixed and specific program is to be followed, it is fatal to disclose this in advance to the debtor; he must be kept in a state of uncertainty, not knowing what is going to happen next. He knows he is in the hands of a pirate who respects no rules, cares nothing for the ethics of his case, and will take any unfair advantage of him possible, even to the extent of delving into his past life, corresponding with his business and personal connections, indirectly and *legally* advertising him as a deadbeat.

These eventualities are indirectly indicated in the letters sent out by the agency, and if the debtor still remains obdurate something of an unpleasant nature actually occurs. Perhaps his employer, his banker, or a friend will receive an offer of his account for sale, or broadcast inquiries will be made regarding his credit standing among the merchants of his town, some of which are

bound to be brought to his attention. At the same time he is receiving intimations from the agency that they are preparing to "go after him" in a stronger and more efficacious manner, one that "never fails to get results." He feels that he is pitted against an invisible and insidious enemy who is fighting from behind and will not allow him a chance to fight back. If this enemy would only sue him he could soon show him that he could not collect a judgment, but he does not like these mining operations by a foe who will not tell him what is being done, but whose activities are made apparent by strange noises in the ground, rustlings in dark corners, and a general air of uncertainty as to what is afoot. Uncertainty is the father of fear, and fear kills more than bullets.

Accounts should never be placed with a collection agency until all hope of an amicable settlement has been abandoned, and then only such accounts as appear to require this treatment. A collection agency cannot create money in the debtor's pocket, and care should always be exercised to ascertain the reason for nonpayment before extreme measures are used. No profit can accrue by hounding one who cannot pay. Besides, a debtor who cannot pay now may be in a position to do so six months or a year hence, and it is better to hold an account in abeyance with some prospect of ultimate recovery than to force it to a conclusion regardless of conditions.

COLLECTIONS BY ATTORNEYS

As regards the instalment mail-order business, attorneys as collectors leave a great deal to be desired. This is due in large measure to the nature of the accounts themselves, and also in some degree to the inefficiency, as a collector of money, of the average attorney.

Aside from the legal standpoint, there is no particular reason why an attorney should be a better collector than anyone else, and he usually is not. If payment can be enforced by judgment he can set the machinery of the law in motion and effect collection, but skill in collecting does not enter into such a situation. All accounts are not enforceable by judgment, and the efficient collector will not advance costs of suit unless he is satisfied that an account is so enforceable. To send an unenforceable claim to an attorney is usually to destroy all prospect of ultimate collection. All the attorney can do is to threaten suit. (The house has already done that.) Perhaps this threat from a local attorney may impress it upon the debtor more strongly that the House means business, and in this way settlement be effected, but if he still remains obdurate and defiant, there is nothing to be done but actually to file suit. If the House will not do this, the attorney returns the claim. The debtor then prides himself upon his astuteness in beating his creditor and thus another parasite is trained to prey upon every mail-order concern that will grant him credit.

There are a great many attorneys who make a specialty of collections, some of whom are very efficient, but these cannot be picked out haphazard from a list containing tens of thousands of names, such as Martindale's and the United States Fidelity and Guaranty Company's lists. Suppose we wish to forward our claim against Simmons to an attorney in McCook, Kansas. Our list shows perhaps ten attorneys there. Probably one of these is a good collector and will be glad to receive the business. In that list of ten attorneys, however, are embraced the best attorneys of the town, enjoying large practices, who would not care to be bothered with a petty claim against a brakeman on the Union Pacific. There are also listed

the worst attorneys in the town, whose inefficiency will make the exasperated collector wonder how they ever got by the bar examination. How are we going to judge? We cannot, and therefore must guess and trust to luck, with the chances at least even that we shall guess wrongly.

The collector forwarding large numbers of claims will gradually build up a small list of his own of attorneys who are willing and competent, but this list must of necessity be very incomplete and cover but a very few towns in the aggregate. The claim against Simmons may be the first one we have forwarded to McCook, and it may be years before we have another. Besides, attorneys on such a list do not remain constant. The efficient collector may be a bright young attorney just entering practice who needs the money. As time goes on, his practice grows and he is no longer interested in the chips and whetstones that kept the pot boiling during the lean years of his novitiate.

Another important factor entering into the situation is the nature of the account. Even though the entire balance may be past due, it is almost an axiom that it cannot be collected in a lump sum, but must be secured in instalments no larger than those designated in the sales contract. The debtor may be willing and able to pay five dollars a month on a fifty-dollar balance, whereas to raise fifty dollars at one time would be impossible. Such accounts are hard and slow pay anyway, otherwise they would not be in an attorney's hands. The ordinary fee is 20 to 33 $\frac{1}{3}$ per cent. The average attorney does not care to dun a debtor month after month for a fee of one or two dollars.

To sum up: If collection is enforceable by judgment and execution, it should, after fair warning, be sent to

an attorney with instructions to file suit. If collection by these means is doubtful or impossible, however, to forward it to any but a known attorney is to run a grave risk of destroying all chance of ultimate collection. It is much safer to send the claim to a reputable collection agency, which will sue quickly enough if circumstances warrant, and which will in addition know of many ways and means to enforce payment aside from legal measures.

FORM-LETTERS

If we have exactly the same message to convey to a thousand people, it is extravagant folly to write each of them a specially dictated letter. If we have a thousand debtors who have allowed their accounts to become delinquent for a certain period without explanation, a letter written to one of them calling his attention to the fact will do for the other 999 equally as well; therefore we send them a form-letter, or stock-letter printed in large quantities on machines designed to reproduce typewriting and filled in with the debtors' names and addresses. Suppose five hundred debtors respond to this letter. We have left five hundred who must be written to again. As before, one letter will apply equally to all; therefore another form-letter will be the logical thing, and so on. Without the form-letter the modern mail order instalment collection department handling hundreds of thousands of accounts could hardly exist, for an ordinary operator will turn out as many form-letters as twelve operators writing on the typewriter, and of course at a fraction of the cost.

A person who receives a form-letter, either a sales or collection letter, should not consider it to be a circular. It is the House's message to him, just as much as if it were written in longhand by the president. The form-

letter simply indicates that the House is writing to a great number of people about the same thing, and is transacting its business in the most economical and expeditious manner. Therefore he who ignores a form-letter simply because it is a form-letter is just as guilty of business discourtesy as though he failed to answer a specially written letter.

As a concrete example of the use of form-letters, let us assume that the firm selling Simmons the diamond uses a series of fifteen "regular" form-letters at intervals of ten days each before the account is given to a local attorney or a collection agency. This will give Simmons one hundred and fifty days, or approximately five months, to pay or explain. The letters will be progressive, starting with courteous reminders, gradually increasing in insistence, up to a point where they get under his armor of silence or indifference, and elicit some sort of response. Suppose he sends a payment in response to the fifth letter, and again allows his account to lapse. We cannot start him over again with the first letter and so on each time he makes a payment and again becomes delinquent, else he will "learn the combination" and know just what letter he is to get, and the point that he cannot safely pass without drastic action on the part of the House. To overcome this difficulty we must have several series of form-letters. Now, if Simmons has paid on the fifth letter of the first series and again becomes delinquent, we start him out on the second series, and send letters of this series to him up to the point where he paid on the first series—that is, if he paid on the fifth letter of the first series, we send him the first five letters of the second series and then revert to the first series, starting with the sixth letter, and so on. Any number of series may be evolved to fit the specific needs

of the business, but for the sake of simplicity each series should revert to the first series at the point where the last payment was received on that (first) series.

Suppose, however, that Simmons does not pay, but the fifth letter elicits an explanation or a complaint. This, of course, must be given special attention, and as long as Simmons responds to specially dictated letters he must receive them in return. The average debtor, however, if denied an adjustment suggested by himself, will not respond to further correspondence, and therefore "special" form-letters must be designed to follow specially dictated letters, and if the debtor continues obdurate the account should go back into the first series of "regular" forms within a reasonable time. For instance, Simmons writes in reply to the fifth letter that his diamond has lost its brilliancy and that he believes he has been swindled. He will get a reply explaining that the diamond is probably dirty, telling him what steps to take to restore its brilliancy and reassuring him as to the value of his purchase. If Simmons is acting in good faith he follows directions, is reassured, and resumes payments. If he is not acting in good faith and has simply given this as an excuse to escape or defer payment, his defense has been met and overcome and he therefore remains silent. In any event, whatever the nature of the special correspondence, the skillful correspondent will so construct his letter that a reply will be in order. If this is not forthcoming, a "special" form follows in due course, calling attention to the House's desire to adjust the situation in a satisfactory manner, adding that in order to do this the co-operation of the debtor will be necessary, and asking for a reply. This "special" form-letter will be followed by others of a progressive nature, designed to lead logically to a point

in the first series of "regular" forms, in which the account follows out its career.

The judicious use of form-letters will save thousands of dollars in a collection department of any size. If an extension is granted on an account, a form-letter will often advise the debtor that his request has been granted, and another form-letter will notify him that the extension has expired, followed by others leading logically back to the main series in case of nonpayment. A concern dealing in any specific line will receive many letters from debtors exactly similar in nature, and it is often possible to devise form-letters to fit a number of preponderating situations, thus saving a great deal of time and special dictation.

A form-letter represents the highest degree of skill on the part of the collection department. Such letters are built up, sentence by sentence, some of them being the evolution of years of thought and experience, and it therefore stands to reason that such a letter will be much more efficient than any haphazard impromptu dictation of the correspondent.

There is a point in the use of such form-letters, however, beyond which it is unwise to go, and unless a careful watch is kept there will be a tendency to include too large a class of letters under the head which a certain form-letter is designed to fit. For example, a form-letter may be used in cases of returned unpaid checks. Checks are returned marked "not sufficient funds," "no account," or "payment stopped." These three reasons present three distinct situations. A careless but well-meaning person who inadvertently overdraws his account should not receive the same letter as a person who draws a check on a bank in which he has no account, or who deliberately stops payment upon a check after having

received a receipt. The person who has inadvertently overdrawn his account will respond immediately to a courteous letter, whereas the other two will require strenuous and drastic treatment. This is but one example of many situations which will develop, but it will serve to illustrate the possibility of abuse of the form-letter.

Another useful expedient which may be discussed here, although it does not concern the form-letter specifically, is the form-paragraph. The correspondent will naturally evolve certain set phrases and sentences which he will use over and over again. He will build these up into paragraphs and in the course of time will develop a "repertoire" of a hundred or more such paragraphs. These paragraphs represent his very best thought and ability and he has found them to be productive of results. Therefore, instead of dictating them into his letters time after time, he writes them out carefully, giving each paragraph a number or letter. Now he gets a letter asking for an extension of time on account of illness. The extension is to be granted, but at the same time the correspondent wishes to impress upon the debtor the importance of resuming his payments as promptly as possible, the policy of the House regarding extensions, and any other matters that may be pertinent. He has form-paragraphs to fit everything he wishes to say. Therefore he will dictate perhaps the first and last paragraphs of his letter and designate the numbers of the form-paragraphs which are to form the body, the result being a well-balanced and efficient letter.

Care must be exercised in the construction of form-paragraphs or the correspondent will gradually evolve such a large number that they will be a burden to him rather than a help. A workable index is likewise essential.

TEST QUESTIONS

1. How does the use of the draft in instalment collections differ from its use in mercantile accounts?
2. At what point in the collection of instalment accounts may the draft be used? Why?
3. What formalities need to be observed to insure that banks will present drafts for collecting instalment accounts?
4. What are the three legal pitfalls to be avoided in the instalment collection business?
5. At what stage of the collection procedure are the services of a collection agency employed?
6. What are the collection methods used by agencies? Why are agencies often more effective than the collector of the instalment house?
7. What are the advantages and limitations in the use of attorneys for collecting delinquent instalment accounts?
8. Explain the importance and use of form-letters in this work.

CHAPTER V

THE MECHANICS OF THE INSTALMENT COLLECTION DEPARTMENT

SYSTEM REQUIRED

The success of the instalment collection department will depend almost wholly upon its organization as regards the routine system of "following up" accounts and handling the records of the department—that is, the methods employed to insure that each individual account will receive the proper amount of attention at the proper intervals, and that no chance will exist whereby any account or accounts will be overlooked or slighted.

The efficient collection department must work automatically up to the point where the debtor either pays or furnishes a reason for nonpayment. In the latter case the efficient collection department ceases to be automatic for the time being until the interpolated situation is adjusted or overcome. The automatic system must be restored with the least possible delay after such an interruption however, because as before stated only 15 per cent of accounts are paid without delinquency at some period. Correspondence of a special nature will be created by practically all the other 85 per cent of accounts, and if they cannot be promptly replaced in the automatic "follow-up," the system will break down.

In view of the fact that many collection departments have in process of collection as many as two or three hundred thousand individual accounts, it will be clear

that the system must be not only automatic but simple, easily operated with the minimum chance of error, self-checking, and capable of unlimited expansion. A system that does not possess these qualities will not only prevent the handling of accounts efficiently from a collection standpoint, but break down mechanically of its own weight if expanded beyond certain limits. The two systems most in use are the loose-leaf ledger system and the card system. The card system possesses so many advantages over the loose-leaf that the latter will be eliminated from consideration in this article.

THE CARD SYSTEM

In the card system, each account is given an individual card, ruled and subdivided in any way to meet the particular requirements of the House. A typical card, which may be adopted to many individual circumstances, is shown in Figure 1. The customer's name, address, and all data regarding him will be shown on the card, together with the amount of his account, terms, etc. All payments received will be entered on the card in the same manner as in a ledger account. When a communication is received from the debtor, the card is attached to it before it is referred to a correspondent. Ordinarily a brief recapitulation of all special correspondence is written on the reverse side of the card by the correspondent, so that a glance will tell him what has previously been written both by the customer and by the House, and give him a general idea of the nature of any special negotiations that may be under way.

THE FILING SYSTEM

There are two methods of handling accounts with cards—the numerical system and the due date system. As the

limits of this article do not permit of an extended discussion of this subject, we will confine ourselves to what is considered to be the best method, i. e., the numerical system.

Under the numerical system each account is numbered and filed numerically in a number of different files; that is, the accounts that are paying promptly each due date will be filed in the "billing file." Those that are delinquent up to a certain period will be filed in the "No. 1 delinquent file." Those that have passed the stage of mere delinquency will be filed in the "No. 2 delinquent file," or perhaps the "attorney file," or whatever the different stages are called.

THE FOLLOW-UP MECHANISM

We will assume that our accounts are to receive attention every ten days. A customer's card will show that his payments are due on the fifth of the month. His is then what is called a "five card." Shortly before the fifth of each month all the "five cards" are taken from the billing file and bills sent out on them, and they are then replaced in their numerical order. On the twelfth of the month, the billing clerk will take out all the "five cards" not showing payments and a second bill will be sent and the cards replaced as before, the idea being that the first bill will reach the debtor in plenty of time to allow him to get his payment in by the fifth, and the second bill before the account becomes more than ten days delinquent. The day after these "five cards" have received attention the clerk is not interested in them when going through the files; he is now interested in "six cards"; on the day after in "seven cards"; and so on, until he completes his cycle of ten and is back to the "fives" again.

It is now approximately the twenty-fifth of the month, and no payment has been received on our "five card." It is again taken out and a "first letter" is sent out, the key number of the letter and the date sent being entered on the card. It is not replaced in the billing file, however. It is now a delinquent account and is filed in the delinquent file in numerical order, where it is taken out on every "five date," that is, on the fifth, fifteenth, and twenty-fifth of each month, and given attention, every letter sent being entered on the card together with the date of mailing, so that each card will present a complete history of all efforts to collect. If the form-letters used are progressive and so keyed, there will be no doubt as to what letter should be sent and the system thus becomes perfectly automatic, with no chance for error. If a payment is received on the "five card" in response to the bills, the payment is entered in the proper place and the card replaced. In going through the billing file on the fifteenth and twenty-fifth of the month the clerk will see at a glance that the account is paid for that month and the card is not withdrawn until the next fifth, when it receives another bill.

If a payment is received on an account in the delinquent file bringing it "up to date," it is of course then replaced in the billing file, or as a result of special correspondence an account may arbitrarily be replaced in good standing, the delinquency being disregarded. In this case the spaces provided for the payments that have not been made are crossed off up to the next due date, and the card replaced in the billing file, where it will be withdrawn and billed at the proper time. The same procedure is followed if an extension is granted. Suppose there is an extension from May until August. The spaces wherein the payments for June and July would be entered are

crossed off and the card will then remain dormant in the billing file until the August due date, when it will be taken out and a bill sent.

Inasmuch as the cards are filed numerically, a supplementary alphabetical file will be required in order to make it possible to find any given card when it is needed for special correspondence or to enter payments. This is a "dead" or dormant file and is used merely to ascertain the account number of an account. If Frank Jones writes regarding his account, the alphabetical file will disclose that his account number is 87,658. It is then necessary to look in all the numerical files in order to find his account card, as there is no way of telling whether it is in the billing file or in any of the delinquent files, unless his letter furnishes a clue. The fact that these are all numerical and hardly ever over three in number, however, renders the task an easy one, and the card can be picked out with practically no delay.

Where there are several hundred thousand individual accounts, alphabetical filing becomes a formidable task, whereas numerical filing presents no difficulties whatever; there is just one place for a certain number. If Jones' number is 87,658, and his card belongs in the delinquent file, we know that his card belongs between the next lower and next higher numbers in that file and nowhere else, whereas if we are filing alphabetically we shall have to stop to think whether he goes before or after Fred A. Jones or Freda B. Jones. The active cards are taken from the files at least once each month and must be refiled, but the index cards which are filed alphabetically are never removed, and so no difficulty arises.

This brief exposition of the numerical system is not intended to cover the subject in anything like a complete manner, but rather to furnish the basis upon which a

system may be built to fit the needs of any particular business. If the foundation is right, the superstructure will stand, no matter how high we build. It is therefore important that we start rightly, because in this great land of unlimited opportunity, where hundred-million dollar mail-order businesses are built within a decade, there is no telling what may happen, no matter how modest a business may be at the start.

TEST QUESTIONS

1. Why is system an important consideration in the handling of mail-order instalment accounts?
2. What advantages has a card system over any other system?
3. What points are to be considered by the instalment collector in choosing a filing system?
4. Explain how a follow-up system may be planned so as to apportion the work evenly over all the days of the month.
5. How is a record kept on the cards of all correspondence with individual debtors?
6. How is the instalment card of a customer handled when a payment has been made?
7. What are the advantages of a numerical filing system for this kind of work?

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